

THE ECONOMIC CONSEQUENCES  
OF THE PEACE



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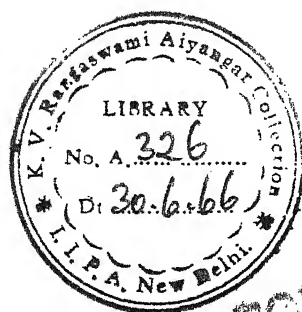


# THE ECONOMIC CONSEQUENCES OF THE PEACE

BY

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## PREFACE

The writer of this book was temporarily attached to the British Treasury during the war and was their official representative at the Paris Peace Conference up to June 7, 1919; he also sat as deputy for the Chancellor of the Exchequer on the Supreme Economic Council. He resigned from these positions when it became evident that hope could no longer be entertained of substantial modification in the draft Terms of Peace. The grounds of his objection to the Treaty, or rather to the whole policy of the Conference towards the economic problems of Europe, will appear in the following chapters. They are entirely of a public character, and are based on facts known to the whole world.

J. M. KEYNES.

KING'S COLLEGE, CAMBRIDGE,  
*November 1919.*



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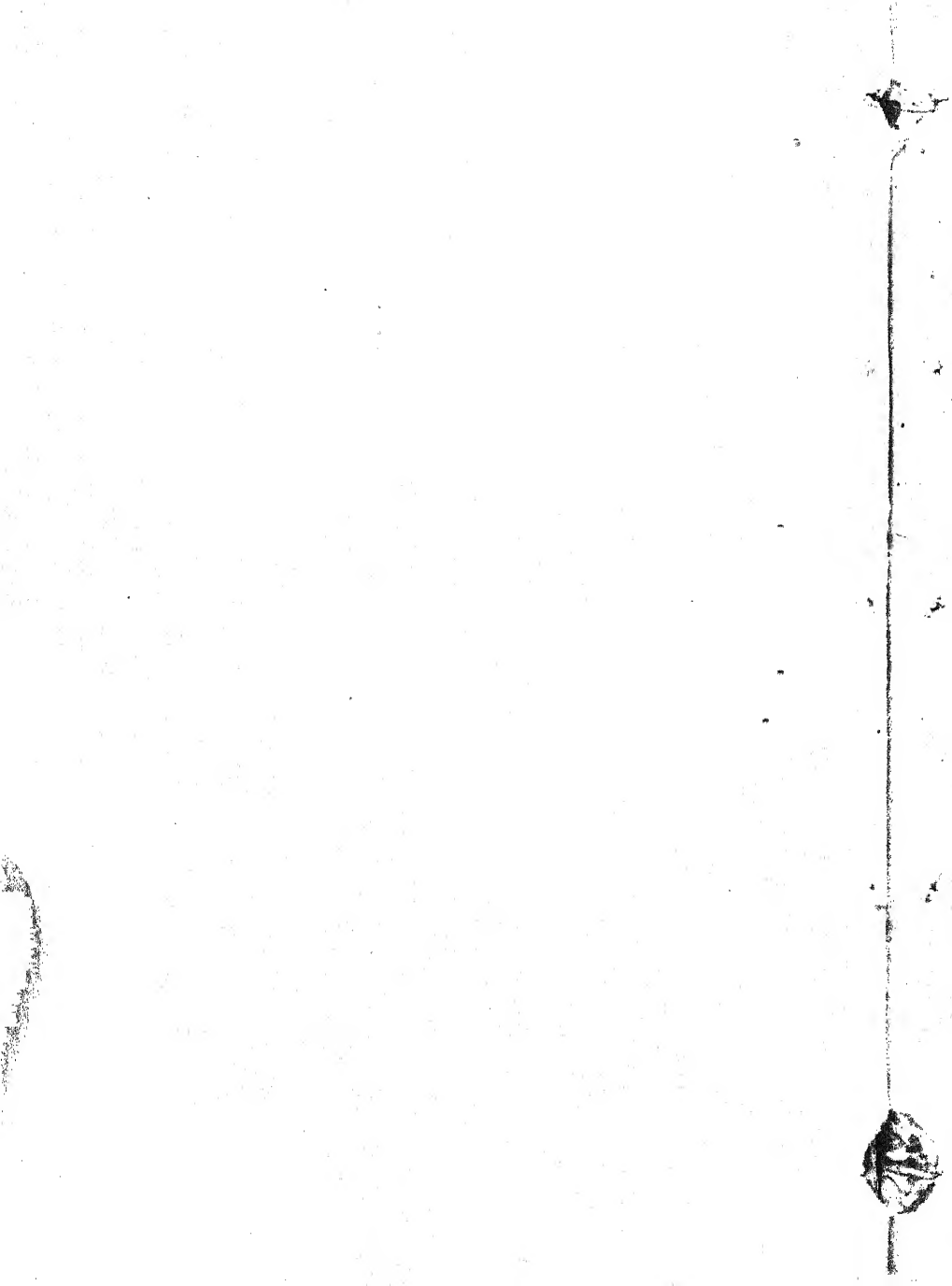
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## CHAPTER I

### INTRODUCTORY

THE power to become habituated to his surroundings is a marked characteristic of mankind. Very few of us realise with conviction the intensely unusual, unstable, complicated, unreliable, temporary nature of the economic organisation by which Western Europe has lived for the last half century. We assume some of the most peculiar and temporary of our late advantages as natural, permanent, and to be depended on, and we lay our plans accordingly. On this sandy and false foundation we scheme for social improvement and dress our political platforms, pursue our animosities and particular ambitions, and feel ourselves with enough margin in hand to foster, not assuage, civil conflict in the European family. Moved by insane delusion and reckless self-regard, the German people overturned the foundations on which we all lived and built. But the spokesmen of the French and British peoples have run the risk of completing the ruin, which Germany began, by a Peace which, if it is carried into effect, must impair

yet further, when it might have restored, the delicate, complicated organisation, already shaken and broken by war, through which alone the European peoples can employ themselves and live.

In England the outward aspect of life does not yet teach us to feel or realise in the least that an age is over. We are busy picking up the threads of our life where we dropped them, with this difference only, that many of us seem a good deal richer than we were before. Where we spent millions before the war, we have now learnt that we can spend hundreds of millions and apparently not suffer for it. Evidently we did not exploit to the utmost the possibilities of our economic life. We look, therefore, not only to a return to the comforts of 1914, but to an immense broadening and intensification of them. All classes alike thus build their plans, the rich to spend more and save less, the poor to spend more and work less.

But perhaps it is only in England (and America) that it is possible to be so unconscious. In continental Europe the earth heaves and no one but is aware of the rumblings. There it is not just a matter of extravagance or "labour troubles"; but of life and death, of starvation and existence, and of the fearful convulsions of a dying civilisation.

For one who spent in Paris the greater part of the six months which succeeded the Armistice an

occasional visit to London was a strange experience. England still stands outside Europe. Europe's voiceless tremors do not reach her. Europe is apart and England is not of her flesh and body. But Europe is solid with herself. France, Germany, Italy, Austria, and Holland, Russia and Roumania and Poland, throb together, and their structure and civilisation are essentially one. They flourished together, they have rocked together in a war, which we, in spite of our enormous contributions and sacrifices (like though in a less degree than America), economically stood outside, and they may fall together. In this lies the destructive significance of the Peace of Paris. If the European Civil War is to end with France and Italy abusing their momentary victorious power to destroy Germany and Austria-Hungary now prostrate, they invite their own destruction also, being so deeply and inextricably intertwined with their victims by hidden psychic and economic bonds. At any rate an Englishman who took part in the Conference of Paris and was during those months a member of the Supreme Economic Council of the Allied Powers, was bound to become, for him a new experience, a European in his cares and outlook. There, at the nerve centre of the European system, his British preoccupations must largely fall away and he must be haunted by other and more dreadful spectres. Paris was a nightmare, and every one there was morbid. A sense of impend-

ing catastrophe overhung the frivolous scene; the futility and smallness of man before the great events confronting him; the mingled significance and unreality of the decisions; levity, blindness, insolence, confused cries from without,—all the elements of ancient tragedy were there. Seated indeed amid the theatrical trappings of the French Saloons of State, one could wonder if the extraordinary visages of Wilson and of Clemenceau, with their fixed hue and unchanging characterisation, were really faces at all and not the tragic-comic masks of some strange drama or puppet-show.

The proceedings of Paris all had this air of extraordinary importance and unimportance at the same time. The decisions seemed charged with consequences to the future of human society; yet the air whispered that the word was not flesh, that it was futile, insignificant, of no effect, dissociated from events; and one felt most strongly the impression, described by Tolstoy in *War and Peace* or by Hardy in *The Dynasts*, of events marching on to their fated conclusion uninfluenced and unaffected by the cerebations of Statesmen in Council:

*Spirit of the Years*

Observe that all wide sight and self-command  
Deserts these throngs now driven to demonry  
By the Immanent Unrecking. Nought remains  
But vindictiveness here amid the strong,  
And there amid the weak an impotent rage.



*Spirit of the Pities*

Why prompts the Will so senseless-shaped a doing ?

*Spirit of the Years*

I have told thee that It works unwittingly,  
As one possessed not judging.

In Paris, where those connected with the Supreme Economic Council received almost hourly the reports of the misery, disorder, and decaying organisation of all Central and Eastern Europe, allied and enemy alike, and learnt from the lips of the financial representatives of Germany and Austria unanswerable evidence of the terrible exhaustion of their countries, an occasional visit to the hot, dry room in the President's house, where the Four fulfilled their destinies in empty and arid intrigue, only added to the sense of nightmare. Yet there in Paris the problems of Europe were terrible and clamant, and an occasional return to the vast unconcern of London a little disconcerting. For in London these questions were very far away, and our own lesser problems alone troubling. London believed that Paris was making a great confusion of its business, but remained uninterested. In this spirit the British people received the Treaty without reading it. But it is under the influence of Paris, not London, that this book has been written by one who, though an Englishman, feels himself a European

also, and, because of too vivid recent experience, cannot disinterest himself from the further unfolding of the great historic drama of these days which will destroy great institutions, but may also create a new world.

## CHAPTER II

### EUROPE BEFORE THE WAR

BEFORE 1870 different parts of the small continent of Europe had specialised in their own products; but, taken as a whole, it was substantially self-subsistent. And its population was adjusted to this state of affairs.

After 1870 there was developed on a large scale an unprecedented situation, and the economic condition of Europe became during the next fifty years unstable and peculiar. The pressure of population on food, which had already been balanced by the accessibility of supplies from America, became for the first time in recorded history definitely reversed. As numbers increased, food was actually easier to secure. Larger proportional returns from an increasing scale of production became true of agriculture as well as industry. With the growth of the European population there were more emigrants on the one hand to till the soil of the new countries, and, on the other, more workmen were available in Europe to prepare the industrial products and capital

goods which were to maintain the emigrant populations in their new homes, and to build the railways and ships which were to make accessible to Europe food and raw products from distant sources. Up to about 1900 a unit of labour applied to industry yielded year by year a purchasing power over an increasing quantity of food. It is possible that about the year 1900 this process began to be reversed, and a diminishing yield of Nature to man's effort was beginning to reassert itself. But the tendency of cereals to rise in real cost was balanced by other improvements; and—one of many novelties—the resources of tropical Africa then for the first time came into large employ, and a great traffic in oil-seeds began to bring to the table of Europe in a new and cheaper form one of the essential foodstuffs of mankind. In this economic Eldorado, in this economic Utopia, as the earlier economists would have deemed it, most of us were brought up.

That happy age lost sight of a view of the world which filled with deep-seated melancholy the founders of our Political Economy. Before the eighteenth century mankind entertained no false hopes. To lay the illusions which grew popular at that age's latter end, Malthus disclosed a Devil. For half a century all serious economical writings held that Devil in clear prospect. For the next half century he was chained up and out of sight. Now perhaps we have loosed him again.

What an extraordinary episode in the economic progress of man that age was which came to an end in August 1914! The greater part of the population, it is true, worked hard and lived at a low standard of comfort, yet were, to all appearances, reasonably contented with this lot. But escape was possible, for any man of capacity or character at all exceeding the average, into the middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could despatch his servant to the neighbouring office of a bank for

such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalisation of which was nearly complete in practice.

It will assist us to appreciate the character and consequences of the Peace which we have imposed on our enemies, if I elucidate a little further some of the chief unstable elements, already present when war broke out, in the economic life of Europe.

### *I. Population*

In 1870, Germany had a population of about 40,000,000. By 1892 this figure had risen to 50,000,000, and by June 30, 1914, to about 68,000,000. In the years immediately preceding the

war the annual increase was about 850,000, of whom an insignificant proportion emigrated.<sup>1</sup> This great increase was only rendered possible by a far-reaching transformation of the economic structure of the country. From being agricultural and mainly self-supporting, Germany transformed herself into a vast and complicated industrial machine, dependent for its working on the equipoise of many factors outside Germany as well as within. Only by operating this machine, continuously and at full blast, could she find occupation at home for her increasing population and the means of purchasing their subsistence from abroad. The German machine was like a top which to maintain its equilibrium must progress ever faster and faster.

In the Austro-Hungarian Empire, which grew from about 40,000,000 in 1890 to at least 50,000,000 at the outbreak of war, the same tendency was present in a less degree, the annual excess of births over deaths being about half a million, out of which, however, there was an annual emigration of some quarter of a million persons.

To understand the present situation, we must apprehend with vividness what an extraordinary centre of population the development of the Germanic system had enabled Central Europe to become. Before the war the population of Germany and Austria-Hungary

<sup>1</sup> In 1913 there were 25,843 emigrants from Germany, of whom 19,124 went to the United States.

together not only substantially exceeded that of the United States, but was about equal to that of the whole of North America. In these numbers, situated within a compact territory, lay the military strength of the Central Powers. But these same numbers—for even the war has not appreciably diminished them<sup>1</sup>—if deprived of the means of life, remain a hardly less danger to European order.

European Russia increased her population in a degree even greater than Germany—from less than 100,000,000 in 1890 to about 150,000,000 at the outbreak of war;<sup>2</sup> and in the years immediately preceding 1914 the excess of births over deaths in Russia as a whole was at the prodigious rate of two millions per annum. This inordinate growth in the population of Russia, which has not been widely noticed in England, has been nevertheless one of the most significant facts of recent years.

The great events of history are often due to secular changes in the growth of population and other fundamental economic causes, which, escaping by their gradual character the notice of contemporary observers, are attributed to the follies of statesmen or the fanaticism of atheists. Thus the extraordinary occurrences of the past two years in Russia, that vast

<sup>1</sup> The net decrease of the German population at the end of 1918 by decline of births and excess of deaths as compared with the beginning of 1914, is estimated at about 2,700,000.

<sup>2</sup> Including Poland and Finland, but excluding Siberia, Central Asia, and the Caucasus.



upheaval of Society, which has overturned what seemed most stable—religion, the basis of property, the ownership of land, as well as forms of government and the hierarchy of classes—may owe more to the deep influences of expanding numbers than to Lenin or to Nicholas; and the disruptive powers of excessive national fecundity may have played a greater part in bursting the bonds of convention than either the power of ideas or the errors of autocracy.

## II. *Organisation*

The delicate organisation by which these peoples lived depended partly on factors internal to the system.

The interference of frontiers and of tariffs was reduced to a minimum, and not far short of three hundred millions of people lived within the three Empires of Russia, Germany, and Austria-Hungary. The various currencies, which were all maintained on a stable basis in relation to gold and to one another, facilitated the easy flow of capital and of trade to an extent the full value of which we only realise now, when we are deprived of its advantages. Over this great area there was an almost absolute security of property and of person.

These factors of order, security, and uniformity, which Europe had never before enjoyed over so wide and populous a territory or for so long a period,

prepared the way for the organisation of that vast mechanism of transport, coal distribution, and foreign trade which made possible an industrial order of life in the dense urban centres of new population. This is too well known to require detailed substantiation with figures. But it may be illustrated by the figures for coal, which has been the key to the industrial growth of Central Europe hardly less than of England; the output of German coal grew from 30,000,000 tons in 1871 to 70,000,000 tons in 1890, 110,000,000 tons in 1900, and 190,000,000 tons in 1913.

Round Germany as a central support the rest of the European economic system grouped itself, and on the prosperity and enterprise of Germany the prosperity of the rest of the Continent mainly depended. The increasing pace of Germany gave her neighbours an outlet for their products, in exchange for which the enterprise of the German merchant supplied them with their chief requirements at a low price.

The statistics of the economic interdependence of Germany and her neighbours are overwhelming. Germany was the best customer of Russia, Norway, Holland, Belgium, Switzerland, Italy, and Austria-Hungary; she was the second best customer of Great Britain, Sweden, and Denmark; and the third best customer of France. She was the largest source of supply to Russia, Norway, Sweden, Denmark, Holland, Switzerland, Italy, Austria-Hungary, Roumania, and Bulgaria; and the second largest

source of supply to Great Britain, Belgium, and France.

In our own case we sent more exports to Germany than to any other country in the world except India, and we bought more from her than from any other country in the world except the United States.

There was no European country except those west of Germany which did not do more than a quarter of their total trade with her; and in the case of Russia, Austria-Hungary, and Holland the proportion was far greater.

Germany not only furnished these countries with trade, but, in the case of some of them, supplied a great part of the capital needed for their own development. Of Germany's pre-war foreign investments, amounting in all to about £1250 million, not far short of £500,000,000 was invested in Russia, Austria-Hungary, Bulgaria, Roumania, and Turkey. And by the system of "peaceful penetration" she gave these countries not only capital, but, what they needed hardly less, organisation. The whole of Europe east of the Rhine thus fell into the German industrial orbit, and its economic life was adjusted accordingly.

But these internal factors would not have been sufficient to enable the population to support itself without the co-operation of external factors also and of certain general dispositions common to the whole of Europe. Many of the circumstances already treated were true of Europe as a whole, and were not

peculiar to the Central Empires. But all of what follows was common to the whole European system.

### III. *The Psychology of Society*

Europe was so organised socially and economically as to secure the maximum accumulation of capital. While there was some continuous improvement in the daily conditions of life of the mass of the population, Society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption. In fact, it was precisely the *inequality* of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others. Herein lay, in fact, the main justification of the Capitalist System. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a régime intolerable. But like bees they saved and accumulated, not less to the advantage of the whole community because they themselves held narrower ends in prospect.

The immense accumulations of fixed capital which, to the great benefit of mankind, were built up during the half century before the war, could never have come about in a Society where wealth was divided

equitably. The railways of the world, which that age built as a monument to posterity, were, not less than the Pyramids of Egypt, the work of labour which was not free to consume in immediate enjoyment the full equivalent of its efforts.

Thus this remarkable system depended for its growth on a double bluff or deception. On the one hand the labouring classes accepted from ignorance or powerlessness, or were compelled, persuaded, or cajoled by custom, convention, authority, and the well-established order of Society into accepting, a situation in which they could call their own very little of the cake, that they and Nature and the capitalists were co-operating to produce. And on the other hand the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice. The duty of "saving" became nine-tenths of virtue and the growth of the cake the object of true religion. There grew round the non-consumption of the cake all those instincts of puritanism which in other ages has withdrawn itself from the world and has neglected the arts of production as well as those of enjoyment. And so the cake increased; but to what end was not clearly contemplated. Individuals would be exhorted not so much to abstain as to defer, and to cultivate the pleasures of security and anticipation. Saving was for old age or for your children; but this was

only in theory,—the virtue of the cake was that it was never to be consumed, neither by you nor by your children after you.

In writing thus I do not necessarily disparage the practices of that generation. In the unconscious recesses of its being Society knew what it was about. The cake was really very small in proportion to the appetites of consumption, and no one, if it were shared all round, would be much the better off by the cutting of it. Society was working not for the small pleasures of to-day but for the future security and improvement of the race,—in fact for “progress.” If only the cake were not cut but was allowed to grow in the geometrical proportion predicted by Malthus of population, but not less true of compound interest, perhaps a day might come when there would at last be enough to go round, and when posterity could enter into the enjoyment of *our* labours. In that day overwork, overcrowding, and underfeeding would come to an end, and men, secure of the comforts and necessities of the body, could proceed to the nobler exercises of their faculties. One geometrical ratio might cancel another, and the nineteenth century was able to forget the fertility of the species in a contemplation of the dizzy virtues of compound interest.

There were two pitfalls in this prospect: lest, population still outstripping accumulation, our self-denials promote not happiness but numbers; and

lest the cake be after all consumed, prematurely, in war, the consumer of all such hopes.

But these thoughts lead too far from my present purpose. I seek only to point out that the principle of accumulation based on inequality was a vital part of the pre-war order of Society and of progress as we then understood it, and to emphasise that this principle depended on unstable psychological conditions, which it may be impossible to re-create. It was not natural for a population, of whom so few enjoyed the comforts of life, to accumulate so hugely. The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the labouring classes may be no longer willing to forgo so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation.

#### *IV. The Relation of the Old World to the New*

The accumulative habits of Europe before the war were the necessary condition of the greatest of the external factors which maintained the European equipoise.

Of the surplus capital goods accumulated by Europe a substantial part was exported abroad, where its investment made possible the development of the new resources of food, materials, and trans-

port, and at the same time enabled the Old World to stake out a claim in the natural wealth and virgin potentialities of the New. This last factor came to be of the vastest importance. The Old World employed with an immense prudence the annual tribute it was thus entitled to draw. The benefit of cheap and abundant supplies, resulting from the new developments which its surplus capital had made possible, was, it is true, enjoyed and not postponed. But the greater part of the money interest accruing on these foreign investments was reinvested and allowed to accumulate, as a reserve (it was then hoped) against the less happy day when the industrial labour of Europe could no longer purchase on such easy terms the produce of other continents, and when the due balance would be threatened between its historical civilisations and the multiplying races of other climates and environments. Thus the whole of the European races tended to benefit alike from the development of new resources whether they pursued their culture at home or adventured it abroad.

Even before the war, however, the equilibrium thus established between old civilisations and new resources was being threatened. The prosperity of Europe was based on the facts that, owing to the large exportable surplus of foodstuffs in America, she was able to purchase food at a cheap rate measured in terms of the labour required to produce her own exports, and that, as a result of her previous invest-



ments of capital, she was entitled to a substantial amount annually without any payment in return at all. The second of these factors then seemed out of danger, but, as a result of the growth of population overseas, chiefly in the United States, the first was not so secure.

When first the virgin soils of America came into bearing, the proportions of the population of those continents themselves, and consequently of their own local requirements, to those of Europe were very small. As lately as 1890 Europe had a population three times that of North and South America added together. But by 1914 the domestic requirements of the United States for wheat were approaching their production, and the date was evidently near when there would be an exportable surplus only in years of exceptionally favourable harvest. Indeed, the present domestic requirements of the United States are estimated at more than ninety per cent of the average yield of the five years 1909-1913.<sup>1</sup> At that time, however, the tendency towards stringency was showing itself, not so much in a lack of abundance

<sup>1</sup> Even since 1914 the population of the United States has increased by seven or eight millions. As their annual consumption of wheat per head is not less than six bushels, the pre-war scale of production in the United States would only show a substantial surplus over present domestic requirements in about one year out of five. We have been saved for the moment by the great harvests of 1918 and 1919, which have been called forth by Mr. Hoover's guaranteed price. But the United States can hardly be expected to continue indefinitely to raise by a substantial figure the cost of living in its own country, in order to provide wheat for a Europe which cannot pay for it.

as in a steady increase of real cost. That is to say, taking the world as a whole, there was no deficiency of wheat, but in order to call forth an adequate supply it was necessary to offer a higher real price. The most favourable factor in the situation was to be found in the extent to which Central and Western Europe was being fed from the exportable surplus of Russia and Roumania.

In short, Europe's claim on the resources of the New World was becoming precarious; the law of diminishing returns was at last reasserting itself, and was making it necessary year by year for Europe to offer a greater quantity of other commodities to obtain the same amount of bread; and Europe, therefore, could by no means afford the disorganisation of any of her principal sources of supply.

Much else might be said in an attempt to portray the economic peculiarities of the Europe of 1914. I have selected for emphasis the three or four greatest factors of instability,—the instability of an excessive population dependent for its livelihood on a complicated and artificial organisation, the psychological instability of the labouring and capitalist classes, and the instability of Europe's claim, coupled with the completeness of her dependence, on the food supplies of the New World.

The war had so shaken this system as to endanger the life of Europe altogether. A great part of the Continent was sick and dying; its population was

greatly in excess of the numbers for which a livelihood was available; its organisation was destroyed, its transport system ruptured, and its food supplies terribly impaired.

It was the task of the Peace Conference to honour engagements and to satisfy justice; but not less to re-establish life and to heal wounds. These tasks were dictated as much by prudence as by the magnanimity which the wisdom of antiquity approved in victors. We will examine in the following chapters the actual character of the Peace.

•

## CHAPTER III

### THE CONFERENCE

IN Chapters IV. and V. I shall study in some detail the economic and financial provisions of the Treaty of Peace with Germany. But it will be easier to appreciate the true origin of many of these terms if we examine here some of the personal factors which influenced their preparation. In attempting this task, I touch, inevitably, questions of motive, on which spectators are liable to error and are not entitled to take on themselves the responsibilities of final judgment. Yet, if I seem in this chapter to assume sometimes the liberties which are habitual to historians, but which, in spite of the greater knowledge with which we speak, we generally hesitate to assume towards contemporaries, let the reader excuse me when he remembers how greatly, if it is to understand its destiny, the world needs light, even if it is partial and uncertain, on the complex struggle of human will and purpose, not yet finished, which, concentrated in the persons of four individuals in a manner never paralleled, made

them, in the first months of 1919, the microcosm of mankind.

In those parts of the Treaty with which I am here concerned, the lead was taken by the French, in the sense that it was generally they who made in the first instance the most definite and the most extreme proposals. This was partly a matter of tactics. When the final result is expected to be a compromise, it is often prudent to start from an extreme position; and the French anticipated at the outset—like most other persons—a double process of compromise, first of all to suit the ideas of their allies and associates, and secondly in the course of the Peace Conference proper with the Germans themselves. These tactics were justified by the event. Clemenceau gained a reputation for moderation with his colleagues in Council by sometimes throwing over with an air of intellectual impartiality the more extreme proposals of his ministers; and much went through where the American and British critics were naturally a little ignorant of the true point at issue, or where too persistent criticism by France's allies put them in a position which they felt as invidious, of always appearing to take the enemy's part and to argue his case. Where, therefore, British and American interests were not seriously involved their criticism grew slack, and some provisions were thus passed which the French themselves did not take very

seriously, and for which the eleventh-hour decision to allow no discussion with the Germans removed the opportunity of remedy.

But, apart from tactics, the French had a policy. Although Clemenceau might curtly abandon the claims of a Klotz or a Loucheur, or close his eyes with an air of fatigue when French interests were no longer involved in the discussion, he knew which points were vital, and these he abated little. In so far as the main economic lines of the Treaty represent an intellectual idea, it is the idea of France and of Clemenceau.

Clemenceau was by far the most eminent member of the Council of Four, and he had taken the measure of his colleagues. He alone both had an idea and had considered it in all its consequences. His age, his character, his wit, and his appearance joined to give him objectivity and a defined outline in an environment of confusion. One could not despise Clemenceau or dislike him, but only take a different view as to the nature of civilised man, or indulge, at least, a different hope.

The figure and bearing of Clemenceau are universally familiar. At the Council of Four he wore a square-tailed coat of very good, thick black broadcloth, and on his hands, which were never uncovered, grey suède gloves; his boots were of thick black leather, very good, but of a country style, and sometimes fastened in front, curiously, by a buckle instead of laces.

His seat in the room in the President's house, where the regular meetings of the Council of Four were held (as distinguished from their private and unattended conferences in a smaller chamber below), was on a square brocaded chair in the middle of the semicircle facing the fire-place, with Signor Orlando on his left, the President next by the fire-place, and the Prime Minister opposite on the other side of the fire-place on his right. He carried no papers and no portfolio, and was unattended by any personal secretary, though several French ministers and officials appropriate to the particular matter in hand would be present round him. His walk, his hand, and his voice were not lacking in vigour, but he bore nevertheless, especially after the attempt upon him, the aspect of a very old man conserving his strength for important occasions. He spoke seldom, leaving the initial statement of the French case to his ministers or officials; he closed his eyes often and sat back in his chair with an impassive face of parchment, his grey gloved hands clasped in front of him. A short sentence, decisive or cynical, was generally sufficient, a question, an unqualified abandonment of his ministers, whose face would not be saved, or a display of obstinacy reinforced by a few words in a piquantly delivered English.<sup>1</sup> But speech and

<sup>1</sup> He alone amongst the Four could speak and understand both languages, Orlando knowing only French and the Prime Minister and President only English; and it is of historical importance that Orlando and the President had no direct means of communication.

passion were not lacking when they were wanted, and the sudden outburst of words, often followed by a fit of deep coughing from the chest, produced their impression rather by force and surprise than by persuasion.

Not infrequently Mr. Lloyd George, after delivering a speech in English, would, during the period of its interpretation into French, cross the hearthrug to the President to reinforce his case by some *ad hominem* argument in private conversation, or to sound the ground for a compromise,—and this would sometimes be the signal for a general upheaval and disorder. The President's advisers would press round him, a moment later the British experts would dribble across to learn the result or see that all was well, and next the French would be there, a little suspicious lest the others were arranging something behind them, until all the room were on their feet and conversation was general in both languages. My last and most vivid impression is of such a scene—the President and the Prime Minister as the centre of a surging mob and a babel of sound, a welter of eager, impromptu compromises and counter-compromises, all sound and fury signifying nothing, on what was an unreal question anyhow, the great issues of the morning's meeting forgotten and neglected; and Clemenceau, silent and aloof on the outskirts—for nothing which touched the security of France was forward—throned, in his grey gloves, on the brocade chair, dry



in soul and empty of hope, very old and tired, but surveying the scene with a cynical and almost impish air; and when at last silence was restored and the company had returned to their places, it was to discover that he had disappeared.

He felt about France what Pericles felt of Athens—unique value in her, nothing else mattering; but his theory of politics was Bismarck's. He had one illusion—France; and one disillusion—mankind, including Frenchmen, and his colleagues not least. His principles for the Peace can be expressed simply. In the first place, he was a foremost believer in the view of German psychology that the German understands and can understand nothing but intimidation, that he is without generosity or remorse in negotiation, that there is no advantage he will not take of you, and no extent to which he will not demean himself for profit, that he is without honour, pride, or mercy. Therefore you must never negotiate with a German or conciliate him; you must dictate to him. On no other terms will he respect you, or will you prevent him from cheating you. But it is doubtful how far he thought these characteristics peculiar to Germany, or whether his candid view of some other nations was fundamentally different. His philosophy had, therefore, no place for "sentimentality" in international relations. Nations are real things, of whom you love one and feel for the rest indifference—or hatred. The glory of the nation you love is a desirable end,—

but generally to be obtained at your neighbour's expense. The politics of power are inevitable, and there is nothing very new to learn about this war or the end it was fought for; England had destroyed, as in each preceding century, a trade rival; a mighty chapter had been closed in the secular struggle between the glories of Germany and of France. Prudence required some measure of lip service to the "ideals" of foolish Americans and hypocritical Englishmen; but it would be stupid to believe that there is much room in the world, as it really is, for such affairs as the League of Nations, or any sense in the principle of self-determination except as an ingenious formula for rearranging the balance of power in one's own interests.

These, however, are generalities. In tracing the practical details of the Peace which he thought necessary for the power and the security of France, we must go back to the historical causes which had operated during his lifetime. Before the Franco-German war the populations of France and Germany were approximately equal; but the coal and iron and shipping of Germany were in their infancy, and the wealth of France was greatly superior. Even after the loss of Alsace-Lorraine there was no great discrepancy between the real resources of the two countries. But in the intervening period the relative position had changed completely. By 1914 the population of Germany was nearly seventy per cent

in excess of that of France; she had become one of the first manufacturing and trading nations of the world; her technical skill and her means for the production of future wealth were unequalled. France on the other hand had a stationary or declining population, and, relatively to others, had fallen seriously behind in wealth and in the power to produce it.

In spite, therefore, of France's victorious issue from the present struggle (with the aid, this time, of England and America), her future position remained precarious in the eyes of one who took the view that European civil war is to be regarded as a normal, or at least a recurrent, state of affairs for the future, and that the sort of conflicts between organised great powers which have occupied the past hundred years will also engage the next. According to this vision of the future, European history is to be a perpetual prize-fight, of which France has won this round, but of which this round is certainly not the last. From the belief that essentially the old order does not change, being based on human nature which is always the same, and from a consequent scepticism of all that class of doctrine which the League of Nations stands for, the policy of France and of Clemenceau followed logically. For a Peace of magnanimity or of fair and equal treatment, based on such "ideology" as the Fourteen Points of the President, could only

have the effect of shortening the interval of Germany's recovery and hastening the day when she will once again hurl at France her greater numbers and her superior resources and technical skill. Hence the necessity of "guarantees"; and each guarantee that was taken, by increasing irritation and thus the probability of a subsequent *Revanche* by Germany, made necessary yet further provisions to crush. Thus, as soon as this view of the world is adopted and the other discarded, a demand for a Carthaginian Peace is inevitable, to the full extent of the momentary power to impose it. For Clemenceau made no pretence of considering himself bound by the Fourteen Points and left chiefly to others such concoctions as were necessary from time to time to save the scruples or the face of the President.

So far as possible, therefore, it was the policy of France to set the clock back and to undo what, since 1870, the progress of Germany had accomplished. By loss of territory and other measures her population was to be curtailed; but chiefly the economic system, upon which she depended for her new strength, the vast fabric built upon iron, coal, and transport, must be destroyed. If France could seize, even in part, what Germany was compelled to drop, the inequality of strength between the two rivals for European hegemony might be remedied for many generations.

Hence sprang those cumulative provisions for the destruction of highly organised economic life which we shall examine in the next chapter.

This is the policy of an old man, whose most vivid impressions and most lively imagination are of the past and not of the future. He sees the issue in terms of France and Germany, not of humanity and of European civilisation struggling forwards to a new order. The war has bitten into his consciousness somewhat differently from ours, and he neither expects nor hopes that we are at the threshold of a new age.

It happens, however, that it is not only an ideal question that is at issue. My purpose in this book is to show that the Carthaginian Peace is not *practically* right or possible. Although the school of thought from which it springs is aware of the economic factor, it overlooks, nevertheless, the deeper economic tendencies which are to govern the future. The clock cannot be set back. You cannot restore Central Europe to 1870 without setting up such strains in the European structure and letting loose such human and spiritual forces as, pushing beyond frontiers and races, will overwhelm not only you and your "guarantees," but your institutions, and the existing order of your Society.

By what legerdemain was this policy substituted for the Fourteen Points, and how did the President come to accept it? The answer to these questions

D

is difficult and depends on elements of character and psychology and on the subtle influence of surroundings, which are hard to detect and harder still to describe. But, if ever the action of a single individual matters, the collapse of the President has been one of the decisive moral events of history; and I must make an attempt to explain it. What a place the President held in the hearts and hopes of the world when he sailed to us in the *George Washington*! What a great man came to Europe in those early days of our victory!

In November 1918 the armies of Foch and the words of Wilson had brought us sudden escape from what was swallowing up all we cared for. The conditions seemed favourable beyond any expectation. The victory was so complete that fear need play no part in the settlement. The enemy had laid down his arms in reliance on a solemn compact as to the general character of the Peace, the terms of which seemed to assure a settlement of justice and magnanimity and a fair hope for a restoration of the broken current of life. To make assurance certain the President was coming himself to set the seal on his work.

When President Wilson left Washington he enjoyed a prestige and a moral influence throughout the world unequalled in history. His bold and measured words carried to the peoples of Europe above and beyond the voices of their own politicians.

The enemy peoples trusted him to carry out the compact he had made with them; and the allied peoples acknowledged him not as a victor only but almost as a prophet. In addition to this moral influence the realities of power were in his hands. The American armies were at the height of their numbers, discipline, and equipment. Europe was in complete dependence on the food supplies of the United States; and financially she was even more absolutely at their mercy. Europe not only already owed the United States more than she could pay; but only a large measure of further assistance could save her from starvation and bankruptcy. Never had a philosopher held such weapons wherewith to bind the princes of this world. How the crowds of the European capitals pressed about the carriage of the President! With what curiosity, anxiety, and hope we sought a glimpse of the features and bearing of the man of destiny who, coming from the West, was to bring healing to the wounds of the ancient parent of his civilisation and lay for us the foundations of the future.

The disillusion was so complete, that some of those who had trusted most hardly dared speak of it. Could it be true? they asked of those who returned from Paris. Was the Treaty really as bad as it seemed? What had happened to the President? What weakness or what misfortune had led to so extraordinary, so unlooked-for a betrayal?

Yet the causes were very ordinary and human. The President was not a hero or a prophet; he was not even a philosopher; but a generously intentioned man, with many of the weaknesses of other human beings, and lacking that dominating intellectual equipment which would have been necessary to cope with the subtle and dangerous spellbinders whom a tremendous clash of forces and personalities had brought to the top as triumphant masters in the swift game of give and take, face to face in Council,—a game of which he had no experience at all.

We had indeed quite a wrong idea of the President. We knew him to be solitary and aloof, and believed him very strong-willed and obstinate. We did not figure him as a man of detail, but the clearness with which he had taken hold of certain main ideas would, we thought, in combination with his tenacity, enable him to sweep through cobwebs. Besides these qualities he would have the objectivity, the cultivation, and the wide knowledge of the student. The great distinction of language which had marked his famous Notes seemed to indicate a man of lofty and powerful imagination. His portraits indicated a fine presence and a commanding delivery. With all this he had attained and held with increasing authority the first position in a country where the arts of the politician are not neglected. All of which, without expecting the impossible, seemed a fine combination of qualities or the matter in hand.



The first impression of Mr. Wilson at close quarters was to impair some but not all of these illusions. His head and features were finely cut and exactly like his photographs, and the muscles of his neck and the carriage of his head were distinguished. But, like Odysseus, the President looked wiser when he was seated; and his hands, though capable and fairly strong, were wanting in sensitiveness and finesse. The first glance at the President suggested not only that, whatever else he might be, his temperament was not primarily that of the student or the scholar, but that he had not much even of that culture of the world which marks M. Clemenceau and Mr. Balfour as exquisitely cultivated gentlemen of their class and generation. But more serious than this, he was not only insensitive to his surroundings in the external sense, he was not sensitive to his environment at all. What chance could such a man have against Mr. Lloyd George's unerring, almost medium-like, sensibility to every one immediately round him? To see the British Prime Minister watching the company, with six or seven senses not available to ordinary men, judging character, motive, and subconscious impulse, perceiving what each was thinking and even what each was going to say next, and compounding with telepathic instinct the argument or appeal best suited to the vanity, weakness, or self-interest of his immediate auditor, was to realise that the poor President would be playing blind

man's buff in that party. Never could a man have stepped into the parlour a more perfect and predestined victim to the finished accomplishments of the Prime Minister. The Old World was tough in wickedness anyhow; the Old World's heart of stone might blunt the sharpest blade of the bravest knight-errant. But this blind and deaf Don Quixote was entering a cavern where the swift and glittering blade was in the hands of the adversary.

But if the President was not the philosopher-king, what was he? After all he was a man who had spent much of his life at a University. He was by no means a business man or an ordinary party politician, but a man of force, personality, and importance. What, then, was his temperament?

The clue once found was illuminating. The President was like a Nonconformist minister, perhaps a Presbyterian. His thought and his temperament were essentially theological not intellectual, with all the strength and the weakness of that manner of thought, feeling, and expression. It is a type of which there are not now in England and Scotland such magnificent specimens as formerly; but this description, nevertheless, will give the ordinary Englishman the distinctest impression of the President.

With this picture of him in mind, we can return to the actual course of events. The President's programme for the World, as set forth in his speeches

and his Notes, had displayed a spirit and a purpose so admirable that the last desire of his sympathisers was to criticise details,—the details, they felt, were quite rightly not filled in at present, but would be in due course. It was commonly believed at the commencement of the Paris Conference that the President had thought out, with the aid of a large body of advisers, a comprehensive scheme not only for the League of Nations, but for the embodiment of the Fourteen Points in an actual Treaty of Peace. But in fact the President had thought out nothing; when it came to practice his ideas were nebulous and incomplete. He had no plan, no scheme, no constructive ideas whatever for clothing with the flesh of life the commandments which he had thundered from the White House. He could have preached a sermon on any of them or have addressed a stately prayer to the Almighty for their fulfilment; but he could not frame their concrete application to the actual state of Europe.

He not only had no proposals in detail, but he was in many respects, perhaps inevitably, ill-informed as to European conditions. And not only was he ill-informed—that was true of Mr. Lloyd George also—but his mind was slow and unadaptable. The President's slowness amongst the Europeans was noteworthy. He could not, all in a minute, take in what the rest were saying, size up the situation with a glance, frame a reply, and meet the case by a

slight change of ground ; and he was liable, therefore, to defeat by the mere swiftness, apprehension, and agility of a Lloyd George. There can seldom have been a statesman of the first rank more incompetent than the President in the agilities of the council chamber. A moment often arrives when substantial victory is yours if by some slight appearance of a concession you can save the face of the opposition or conciliate them by a restatement of your proposal helpful to them and not injurious to anything essential to yourself. The President was not equipped with this simple and usual artfulness. His mind was too slow and unresourceful to be ready with *any* alternatives. The President was capable of digging his toes in and refusing to budge, as he did over Fiume. But he had no other mode of defence, and it needed as a rule but little manœuvring by his opponents to prevent matters from coming to such a head until it was too late. By pleasantness and an appearance of conciliation, the President would be manœuvred off his ground, would miss the moment for digging his toes in, and, before he knew where he had been got to, it was too late. Besides, it is impossible month after month in intimate and ostensibly friendly converse between close associates, to be digging the toes in all the time. Victory would only have been possible to one who had always a sufficiently lively apprehension of the position as a whole to reserve his fire and know for certain the

rare exact moments for decisive action. And for that the President was far too slow-minded and bewildered.

He did not remedy these defects by seeking aid from the collective wisdom of his lieutenants. He had gathered round him for the economic chapters of the Treaty a very able group of business men ; but they were inexperienced in public affairs, and knew (with one or two exceptions) as little of Europe as he did, and they were only called in irregularly as he might need them for a particular purpose. Thus the aloofness which had been found effective in Washington was maintained, and the abnormal reserve of his nature did not allow near him any one who aspired to moral equality or the continuous exercise of influence. His fellow-plenipotentiaries were dummies ; and even the trusted Colonel House, with vastly more knowledge of men and of Europe than the President, from whose sensitiveness the President's dulness had gained so much, fell into the background as time went on. All this was encouraged by his colleagues on the Council of Four, who, by the break-up of the Council of Ten, completed the isolation which the President's own temperament had initiated. Thus day after day and week after week, he allowed himself to be closeted, unsupported, unadvised, and alone, with men much sharper than himself, in situations of supreme difficulty, where he needed for success every description of resource,

fertility, and knowledge. He allowed himself to be drugged by their atmosphere, to discuss on the basis of their plans and of their data, and to be led along their paths.

These and other various causes combined to produce the following situation. The reader must remember that the processes which are here compressed into a few pages took place slowly, gradually, insidiously, over a period of about five months.

As the President had thought nothing out, the Council was generally working on the basis of a French or British draft. He had to take up, therefore, a persistent attitude of obstruction, criticism, and negation, if the draft was to become at all in line with his own ideas and purpose. If he was met on some points with apparent generosity (for there was always a safe margin of quite preposterous suggestions which no one took seriously), it was difficult for him not to yield on others. Compromise was inevitable, and never to compromise on the essential, very difficult. Besides, he was soon made to appear to be taking the German part, and laid himself open to the suggestion (to which he was foolishly and unfortunately sensitive) of being "pro-German."

After a display of much principle and dignity in the early days of the Council of Ten, he discovered that there were certain very important points in the programme of his French, British, or Italian

colleague, as the case might be, of which he was incapable of securing the surrender by the methods of secret diplomacy. What then was he to do in the last resort? He could let the Conference drag on an endless length by the exercise of sheer obstinacy. He could break it up and return to America in a rage with nothing settled. Or he could attempt an appeal to the world over the heads of the Conference. These were wretched alternatives, against each of which a great deal could be said. They were also very risky,—especially for a politician. The President's mistaken policy over the Congressional election had weakened his personal position in his own country, and it was by no means certain that the American public would support him in a position of intransigency. It would mean a campaign in which the issues would be clouded by every sort of personal and party consideration, and who could say if right would triumph in a struggle which would certainly not be decided on its merits. Besides, any open rupture with his colleagues would certainly bring upon his head the blind passions of "anti-German" resentment with which the public of all allied countries were still inspired. They would not listen to his arguments. They would not be cool enough to treat the issue as one of international morality or of the right governance of Europe. The cry would simply be that for various sinister and selfish reasons, the President wished "to let the Hun

off." The almost unanimous voice of the French and British Press could be anticipated. Thus, if he threw down the gage publicly he might be defeated. And if he were defeated, would not the final Peace be far worse than if he were to retain his prestige and endeavour to make it as good as the limiting conditions of European politics would allow him? But above all, if he were defeated, would he not lose the League of Nations? And was not this, after all, by far the most important issue for the future happiness of the world? The Treaty would be altered and softened by time. Much in it which now seemed so vital would become trifling, and much which was impracticable would for that very reason never happen. But the League, even in an imperfect form, was permanent; it was the first commencement of a new principle in the government of the world; Truth and Justice in international relations could not be established in a few months,—they must be born in due course by the slow gestation of the League. Clemenceau had been clever enough to let it be seen that he would swallow the League at a price.

At the crisis of his fortunes the President was a lonely man. Caught up in the toils of the Old World, he stood in great need of sympathy, of moral support, of the enthusiasm of masses. But buried in the Conference, stifled in the hot and poisoned atmosphere of Paris, no echo reached him from the



outer world, and no throb of passion, sympathy, or encouragement from his silent constituents in all countries. He felt that the blaze of popularity which had greeted his arrival in Europe was already dimmed; the Paris Press jeered at him openly; his political opponents at home were taking advantage of his absence to create an atmosphere against him; England was cold, critical, and unresponsive. He had so formed his *entourage* that he did not receive through private channels the current of faith and enthusiasm of which the public sources seemed dammed up. He needed, but lacked, the added strength of collective faith. The German terror still overhung us, and even the sympathetic public was very cautious; the enemy must not be encouraged, our friends must be supported, this was not the time for discord or agitations, the President must be trusted to do his best. And in this drought the flower of the President's faith withered and dried up.

Thus it came to pass that the President countermanded the *George Washington*, which, in a moment of well-founded rage, he had ordered to be in readiness to carry him from the treacherous halls of Paris back to the seat of his authority, where he could have felt himself again. But as soon, alas, as he had taken the road of compromise, the defects, already indicated, of his temperament and of his equipment, were fatally apparent. He could take the high line; he could

practise obstinacy; he could write Notes from Sinai or Olympus; he could remain unapproachable in the White House or even in the Council of Ten and be safe. But if he once stepped down to the intimate equality of the Four, the game was evidently up.

Now it was that what I have called his theological or Presbyterian temperament became dangerous. Having decided that some concessions were unavoidable, he might have sought by firmness and address and the use of the financial power of the United States to secure as much as he could of the substance, even at some sacrifice of the letter. But the President was not capable of so clear an understanding with himself as this implied. He was too conscientious. Although compromises were now necessary, he remained a man of principle and the Fourteen Points a contract absolutely binding upon him. He would do nothing that was not honourable; he would do nothing that was not just and right; he would do nothing that was contrary to his great profession of faith. Thus, without any abatement of the verbal inspiration of the Fourteen Points, they became a document for gloss and interpretation and for all the intellectual apparatus of self-deception, by which, I daresay, the President's forefathers had persuaded themselves that the course they thought it necessary to take was consistent with every syllable of the Pentateuch.

The President's attitude to his colleagues had now become: I want to meet you so far as I can; I see your difficulties and I should like to be able to agree to what you propose; but I can do nothing that is not just and right, and you must first of all show me that what you want does really fall within the words of the pronouncements which are binding on me. Then began the weaving of that web of sophistry and Jesuitical exegesis that was finally to clothe with insincerity the language and substance of the whole Treaty. The word was issued to the witches of all Paris:

Fair is foul, and foul is fair,  
Hover through the fog and filthy air.

The subtlest sophisters and most hypocritical draftsmen were set to work, and produced many ingenious exercises which might have deceived for more than an hour a cleverer man than the President.

Thus instead of saying that German-Austria is prohibited from uniting with Germany except by leave of France (which would be inconsistent with the principle of self-determination), the Treaty, with delicate draftsmanship, states that "Germany acknowledges and will respect strictly the independence of Austria, within the frontiers which may be fixed in a Treaty between that State and the Principal Allied and Associated Powers; she agrees that this independence shall be inalienable, except with the consent of the Council of the League of Nations,"

which sounds, but is not, quite different. And who knows but that the President forgot that another part of the Treaty provides that for this purpose the Council of the League must be *unanimous*.

Instead of giving Danzig to Poland, the Treaty establishes Danzig as a "Free" City, but includes this "Free" City within the Polish Customs frontier, entrusts to Poland the control of the river and railway system, and provides that "the Polish Government shall undertake the conduct of the foreign relations of the Free City of Danzig as well as the diplomatic protection of citizens of that city when abroad."

In placing the river system of Germany under foreign control, the Treaty speaks of declaring international those "river systems which naturally provide more than one State with access to the sea, with or without transshipment from one vessel to another."

Such instances could be multiplied. The honest and intelligible purpose of French policy, to limit the population of Germany and weaken her economic system, is clothed, for the President's sake, in the august language of freedom and international equality.

But perhaps the most decisive moment, in the disintegration of the President's moral position and the clouding of his mind, was when at last, to the dismay of his advisers, he allowed himself to be persuaded that the expenditure of the Allied Governments on pensions and separation

allowances could be fairly regarded as "damage done to the civilian population of the Allied and Associated Powers by German aggression by land, by sea, and from the air," in a sense in which the other expenses of the war could not be so regarded. It was a long theological struggle in which, after the rejection of many different arguments, the President finally capitulated before a masterpiece of the sophist's art.

At last the work was finished; and the President's conscience was still intact. In spite of everything, I believe that his temperament allowed him to leave Paris a really sincere man; and it is probable that to this day he is genuinely convinced that the Treaty contains practically nothing inconsistent with his former professions.

But the work was too complete, and to this was due the last tragic episode of the drama. The reply of Brockdorff-Rantzau inevitably took the line that Germany had laid down her arms on the basis of certain assurances, and that the Treaty in many particulars was not consistent with these assurances. But this was exactly what the President could not admit; in the sweat of solitary contemplation and with prayers to God he had done *nothing* that was not just and right; for the President to admit that the German reply had force in it was to destroy his self-respect and to disrupt the inner equipoise of his soul; and every instinct of his stubborn nature rose in self-protection. In the language of medical

psychology, to suggest to the President that the Treaty was an abandonment of his professions was to touch on the raw a Freudian complex. It was a subject intolerable to discuss, and every subconscious instinct plotted to defeat its further exploration.

Thus it was that Clemenceau brought to success, what had seemed to be, a few months before, the extraordinary and impossible proposal that the Germans should not be heard. If only the President had not been so conscientious, if only he had not concealed from himself what he had been doing, even at the last moment he was in a position to have recovered lost ground and to have achieved some very considerable successes. But the President was set. His arms and legs had been spliced by the surgeons to a certain posture, and they must be broken again before they could be altered. To his horror, Mr. Lloyd George, desiring at the last moment all the moderation he dared, discovered that he could not in five days persuade the President of error in what it had taken five months to prove to him to be just and right. After all, it was harder to de-bamboozle this old Presbyterian than it had been to bamboozle him; for the former involved his belief in and respect for himself.

Thus in the last act the President stood for stubbornness and a refusal of conciliations.

## CHAPTER IV

### THE TREATY

THE thoughts which I have expressed in the second chapter were not present to the mind of Paris. The future life of Europe was not their concern; its means of livelihood was not their anxiety. Their preoccupations, good and bad alike, related to frontiers and nationalities, to the balance of power, to imperial aggrandisements, to the future enfeeblement of a strong and dangerous enemy, to revenge, and to the shifting by the victors of their unbearable financial burdens on to the shoulders of the defeated.

Two rival schemes for the future polity of the world took the field,—the Fourteen Points of the President, and the Carthaginian Peace of M. Clemenceau. Yet only one of these was entitled to take the field; for the enemy had not surrendered unconditionally, but on agreed terms as to the general character of the Peace.

This aspect of what happened cannot, unfortunately, be passed over with a word, for in the minds of many Englishmen at least it has been a subject

of very great misapprehension. Many persons believe that the Armistice Terms constituted the first Contract concluded between the Allied and Associated Powers and the German Government, and that we entered the Conference with our hands free, except so far as these Armistice Terms might bind us. This was not the case. To make the position plain, it is necessary briefly to review the history of the negotiations which began with the German Note of October 5, 1918, and concluded with President Wilson's Note of November 5, 1918.

On October 5, 1918, the German Government addressed a brief Note to the President accepting the Fourteen Points and asking for Peace negotiations. The President's reply of October 8 asked if he was to understand definitely that the German Government accepted "the terms laid down" in the Fourteen Points and in his subsequent Addresses and "that its object in entering into discussion would be only to agree upon the practical details of their application." He added that the evacuation of invaded territory must be a prior condition of an Armistice. On October 12 the German Government returned an unconditional affirmative to these questions;—"its object in entering into discussions would be only to agree upon practical details of the application of these terms." On October 14, having received this affirmative answer, the President made a further communication to make clear the points: (1) that



the details of the Armistice would have to be left to the military advisers of the United States and the Allies, and must provide absolutely against the possibility of Germany's resuming hostilities; (2) that submarine warfare must cease if these conversations were to continue; and (3) that he required further guarantees of the representative character of the Government with which he was dealing. On October 20 Germany accepted points (1) and (2), and pointed out, as regards (3), that she now had a Constitution and a Government dependent for its authority on the Reichstag. On October 23 the President announced that, "having received the solemn and explicit assurance of the German Government that it unreservedly accepts the terms of peace laid down in his Address to the Congress of the United States on January 8, 1918 (the Fourteen Points), and the principles of settlement enunciated in his subsequent Addresses, particularly the Address of September 27, and that it is ready to discuss the details of their application," he has communicated the above correspondence to the Governments of the Allied Powers "with the suggestion that, if these Governments are disposed to effect peace upon the terms and principles indicated," they will ask their military advisers to draw up Armistice Terms of such a character as to "ensure to the Associated Governments the unrestricted power to safeguard and enforce the details of the peace to which the German

Government has agreed." At the end of this Note the President hinted more openly than in that of October 14 at the abdication of the Kaiser. This completes the preliminary negotiations to which the President alone was a party, acting without the Governments of the Allied Powers.

On November 5, 1918, the President transmitted to Germany the reply he had received from the Governments associated with him, and added that Marshal Foch had been authorised to communicate the terms of an armistice to properly accredited representatives. In this reply the Allied Governments, "subject to the qualifications which follow, declare their willingness to make peace with the Government of Germany on the terms of peace laid down in the President's Address to Congress of January 8, 1918, and the principles of settlement enunciated in his subsequent Addresses." The qualifications in question were two in number. The first related to the Freedom of the Seas, as to which they "reserved to themselves complete freedom." The second related to Reparation and ran as follows:—"Further, in the conditions of peace laid down in his Address to Congress on the 8th January 1918, the President declared that invaded territories must be restored as well as evacuated and made free. The Allied Governments feel that no doubt ought to be allowed to exist as to what this provision implies. By it they understand that compensation will be made by Germany for all damage

done to the civilian population of the Allies and to their property by the aggression of Germany by land, by sea, and from the air.”<sup>1</sup>

The nature of the Contract between Germany and the Allies resulting from this exchange of documents is plain and unequivocal. The terms of the peace are to be in accordance with the Addresses of the President, and the purpose of the Peace Conference is “to discuss the details of their application.” The circumstances of the Contract were of an unusually solemn and binding character; for one of the conditions of it was that Germany should agree to Armistice Terms which were to be such as would leave her helpless. Germany having rendered herself helpless in reliance on the Contract, the honour of the Allies was peculiarly involved in fulfilling their part and, if there were ambiguities, in not using their position to take advantage of them.

What, then, was the substance of this Contract to which the Allies had bound themselves? An examination of the documents shows that, although a large part of the Addresses is concerned with spirit, purpose, and intention, and not with concrete solutions, and that many questions requiring a settlement in the Peace Treaty are not touched on, nevertheless, there are certain questions which they settle definitely. It is true that within somewhat wide limits the Allies still had a free hand. Further, it is

<sup>1</sup> The precise force of this reservation is discussed in detail in Chapter V.

difficult to apply on a contractual basis those passages which deal with spirit, purpose, and intention;—every man must judge for himself whether, in view of them, deception or hypocrisy has been practised. But there remain, as will be seen below, certain important issues on which the Contract is unequivocal.

In addition to the Fourteen Points of January 8, 1918, the Addresses of the President which form part of the material of the Contract are four in number,—before the Congress on February 11; at Baltimore on April 6; at Mount Vernon on July 4; and at New York on September 27, the last of these being specially referred to in the Contract. I venture to select from these Addresses those engagements of substance, avoiding repetitions, which are most relevant to the German Treaty. The parts I omit add to, rather than detract from, those I quote; but they chiefly relate to intention, and are perhaps too vague and general to be interpreted contractually.<sup>1</sup>

*The Fourteen Points.*—(3). “The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among *all* the nations consenting to the Peace and associating themselves for its maintenance.” (4). “Adequate guarantees *given and taken* that national armaments will be

<sup>1</sup> I also omit those which have no special relevance to the German Settlement. The second of the Fourteen Points, which relates to the Freedom of the Seas, is omitted because the Allies did not accept it. Any italics are mine.

reduced to the lowest point consistent with domestic safety." (5). "A free, open-minded, and absolutely impartial adjustment of all colonial claims," regard being had to the interests of the populations concerned. (6), (7), (8), and (11). The evacuation and "restoration" of all invaded territory, especially of Belgium. To this must be added the rider of the Allies, claiming compensation for all damage done to civilians and their property by land, by sea, and from the air (quoted in full above). (8). The righting of "the wrong done to France by Prussia in 1871 in the matter of Alsace-Lorraine." (13). An independent Poland, including "the territories inhabited by indisputably Polish populations" and "assured a free and secure access to the sea." (14). The League of Nations.

*Before the Congress, February 11.*—"There shall be no annexations, no contributions, no punitive damages. . . . Self-determination is not a mere phrase. It is an imperative principle of action which statesmen will henceforth ignore at their peril. . . . Every territorial settlement involved in this war must be made in the interest and for the benefit of the populations concerned, and not as a part of any mere adjustment or compromise of claims amongst rival States."

*New York, September 27.*—(1) "The impartial justice meted out must involve no discrimination between those to whom we wish to be just and those

to whom we do not wish to be just." (2) "No special or separate interest of any single nation or any group of nations can be made the basis of any part of the settlement which is not consistent with the common interest of all." (3) "There can be no leagues or alliances or special covenants and understandings within the general and common family of the League of Nations." (4) "There can be no special selfish economic combinations within the League and no employment of any form of economic boycott or exclusion, except as the power of economic penalty by exclusion from the markets of the world may be vested in the League of Nations itself as a means of discipline and control." (5) "All international agreements and treaties of every kind must be made known in their entirety to the rest of the world."

This wise and magnanimous programme for the world had passed on November 5, 1918, beyond the region of idealism and aspiration, and had become part of a solemn contract to which all the Great Powers of the world had put their signature. But it was lost, nevertheless, in the morass of Paris;—the spirit of it altogether, the letter in parts ignored and in other parts distorted.

The German observations on the draft Treaty of Peace were largely a comparison between the terms of this understanding, on the basis of which the German nation had agreed to lay down its arms, and the actual provisions of the document offered the form signature

thereafter. The German commentators had little difficulty in showing that the draft Treaty constituted a breach of engagements and of international morality comparable with their own offence in the invasion of Belgium. Nevertheless, the German reply was not in all its parts a document fully worthy of the occasion, because in spite of the justice and importance of much of its contents, a truly broad treatment and high dignity of outlook were a little wanting, and the general effect lacks the simple treatment, with the dispassionate objectivity of despair, which the deep passions of the occasion might have evoked. The Allied Governments gave it, in any case, no serious consideration, and I doubt if anything which the German delegation could have said at that stage of the proceedings would have much influenced the result.

The commonest virtues of the individual are often lacking in the spokesmen of nations; a statesman representing not himself but his country may prove, without incurring excessive blame—as history often records—vindictive, perfidious, and egotistic. These qualities are familiar in treaties imposed by victors. But the German delegation did not succeed in exposing in burning and prophetic words the quality which chiefly distinguishes this transaction from all its historical predecessors—its insincerity.

This theme, however, must be for another pen than mine. I am mainly concerned in what follows,

not with the justice of the Treaty,—neither with the demand for penal justice against the enemy, nor with the obligation of contractual justice on the victor,—but with its wisdom and with its consequences.

I propose, therefore, in this chapter to set forth baldly the principal economic provisions of the Treaty, reserving, however, for the next my comments on the Reparation Chapter and on Germany's capacity to meet the payments there demanded from her.

The German economic system as it existed before the war depended on three main factors: I. Overseas commerce as represented by her mercantile marine, her colonies, her foreign investments, her exports, and the overseas connections of her merchants; II. The exploitation of her coal and iron and the industries built upon them; III. Her transport and tariff system. Of these the first, while not the least important, was certainly the most vulnerable. The Treaty aims at the systematic destruction of all three, but principally of the first two.

## I

(1) Germany has ceded to the Allies *all* the vessels of her mercantile marine exceeding 1600 tons gross, half the vessels between 1000 tons and 1600 tons, and one quarter of her trawlers and other fishing boats.<sup>1</sup> The cession is comprehensive, including not

<sup>1</sup> Part VIII. Annex III. (1).



only vessels flying the German flag, but also all vessels owned by Germans but flying other flags, and all vessels under construction as well as those afloat.<sup>1</sup> Further, Germany undertakes, if required, to build for the Allies such types of ships as they may specify up to 200,000 tons<sup>2</sup> annually for five years, the value of these ships being credited to Germany against what is due from her for Reparation.<sup>3</sup>

Thus the German mercantile marine is swept from the seas and cannot be restored for many years to come on a scale adequate to meet the requirements of her own commerce. For the present, no lines will run from Hamburg, except such as foreign nations may find it worth while to establish out of their surplus tonnage. Germany will have to pay to foreigners for the carriage of her trade such charges as they may be able to exact, and will receive only such conveniences as it may suit them to give her. The prosperity of German ports and commerce can only revive, it would seem, in proportion as she succeeds in bringing under her effective influence the merchant marines of Scandinavia and of Holland.

(2) Germany has ceded to the Allies "all her rights and titles over her oversea possessions."<sup>4</sup> This cession not only applies to sovereignty but extends on unfavourable terms to Government property, all of

<sup>1</sup> Part VIII. Annex III. (3).

<sup>2</sup> In the years before the war the average shipbuilding output of Germany was about 350,000 tons annually, exclusive of warships.

<sup>3</sup> Part VIII. Annex III. (5).

<sup>4</sup> Art. 119.

which, including railways, must be surrendered without payment, while, on the other hand, the German Government remains liable for any debt which may have been incurred for the purchase or construction of this property, or for the development of the colonies generally.<sup>1</sup>

In distinction from the practice ruling in the case of most similar cessions in recent history, the property and persons of private German nationals, as distinct from their Government, are also injuriously affected. The Allied Government exercising authority in any former German colony "may make such provisions as it thinks fit with reference to the repatriation from them of German nationals and to the conditions upon which German subjects of European origin shall, or shall not, be allowed to reside, hold property, trade or exercise a profession in them."<sup>2</sup> All contracts and agreements in favour of German nationals for the construction or exploitation of public works lapse to the Allied Governments as part of the payment due for Reparation.

But these terms are unimportant compared with the more comprehensive provision by which "the Allied and Associated Powers reserve the right to retain and liquidate *all* property, rights, and interests belonging at the date of the coming into force of the present Treaty to German nationals, or companies controlled by them," within the former

<sup>1</sup> Arts. 120 and 257.

<sup>2</sup> Art. 122.

German colonies.<sup>1</sup> This wholesale expropriation of private property is to take place without the Allies affording any compensation to the individuals expropriated, and the proceeds will be employed, first, to meet private debts due to Allied nationals from any German nationals, and second, to meet claims due from Austrian, Hungarian, Bulgarian, or Turkish nationals. Any balance may either be returned by the liquidating Power direct to Germany, or retained by them. If retained, the proceeds must be transferred to the Reparation Commission for Germany's credit in the Reparation account.<sup>2</sup>

In short, not only are German sovereignty and German influence extirpated from the whole of her former oversea possessions, but the persons and property of her nationals resident or owning property in those parts are deprived of legal status and legal security.

(3) The provisions just outlined in regard to the private property of Germans in the ex-German colonies apply equally to private German property in Alsace-Lorraine, except in so far as the French Government may choose to grant exceptions.<sup>3</sup> This is of much greater practical importance than the similar expropriation overseas because of the far higher value

<sup>1</sup> Arts. 121 and 297 (b). The exercise or non-exercise of this option of expropriation appears to lie, not with the Reparation Commission, but with the particular Power in whose territory the property has become situated by cession or mandation.

<sup>2</sup> Art. 297 (h) and para. 4 of Annex to Part X. Section IV.

<sup>3</sup> Arts. 53 and 74.

of the property involved and the closer interconnection, resulting from the great development of the mineral wealth of these provinces since 1871, of German economic interests there with those in Germany itself. Alsace-Lorraine has been part of the German Empire for nearly fifty years—a considerable majority of its population is German-speaking—and it has been the scene of some of Germany's most important economic enterprises. Nevertheless, the property of those Germans who reside there, or who have invested in its industries, is now entirely at the disposal of the French Government without compensation, except in so far as the German Government itself may choose to afford it. The French Government is entitled to expropriate without compensation the personal property of private German citizens and German companies resident or situated within Alsace-Lorraine, the proceeds being credited in part satisfaction of various French claims. The severity of this provision is only mitigated to the extent that the French Government may expressly permit German nationals to continue to reside, in which case the above provision is not applicable. Government, State, and Municipal property, on the other hand, is to be ceded to France without any credit being given for it. This includes the railway system of the two provinces, together with its rolling-stock.<sup>1</sup> But while the

<sup>1</sup> In 1871 Germany granted France credit for the railways of Alsace-Lorraine but not for State property. At that time, however, the railways were private property. As they afterwards became the property of the

property is taken over, liabilities contracted in respect of it in the form of public debts of any kind remain the liability of Germany.<sup>1</sup> The provinces also return to French sovereignty free and quit of their share of German war or pre-war dead-weight debt; nor does Germany receive a credit on this account in respect of Reparation.

(4) The expropriation of German private property is not limited, however, to the ex-German colonies and Alsace-Lorraine. The treatment of such property forms, indeed, a very significant and material section of the Treaty, which has not received as much attention as it merits, although it was the subject of exceptionally violent objection on the part of the German delegates at Versailles. So far as I know, there is no precedent in any peace treaty of recent history for the treatment of private property set forth below, and the German representatives urged that the precedent now established strikes a dangerous and immoral blow at the security of private property everywhere. This is an exaggeration, and the sharp distinction, approved by custom and convention during the past two centuries, between the property and rights of a State and the property and rights of its nationals is an artificial one, which is being rapidly put out of date by many other influences than the

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German Government, the French Government have held, in spite of the large additional capital which Germany has sunk in them, that their treatment must follow the precedent of State property generally.

<sup>1</sup> Arts. 55 and 255. This follows the precedent of 1871.

Peace Treaty, and is inappropriate to modern socialistic conceptions of the relations between the State and its citizens. It is true, however, that the Treaty strikes a destructive blow at a conception which lies at the root of much of so-called international law, as this has been expounded hitherto.

The principal provisions relating to the expropriation of German private property situated outside the frontiers of Germany, as these are now determined, are overlapping in their incidence, and the more drastic would seem in some cases to render the others unnecessary. Generally speaking, however, the more drastic and extensive provisions are not so precisely framed as those of more particular and limited application. They are as follows:—

(*a*) The Allies “reserve the right to retain and liquidate all property, rights and interests belonging at the date of the coming into force of the present Treaty to German nationals, or companies controlled by them, within their territories, colonies, possessions and protectorates, including territories ceded to them by the present Treaty.”<sup>1</sup>

This is the extended version of the provision which has been discussed already in the case of the colonies and of Alsace-Lorraine. The value of the property so expropriated will be applied, in the first instance, to the satisfaction of private debts due from Germany to the nationals of the Allied Government

<sup>1</sup> Art. 297 (*b*).

within whose jurisdiction the liquidation takes place, and, second, to the satisfaction of claims arising out of the acts of Germany's former allies. Any balance, if the liquidating Government elects to retain it, must be credited in the Reparation account.<sup>1</sup> It is, however, a point of considerable importance that the liquidating Government is not compelled to transfer the balance to the Reparation Commission, but can, if it so decides, return the proceeds direct to Germany. For this will enable the United States, if they so wish, to utilise the very large balances, in the hands of their enemy-property custodian, to pay for the provisioning of Germany, without regard to the views of the Reparation Commission.

These provisions had their origin in the scheme for the mutual settlement of enemy debts by means of a Clearing House. Under this proposal it was hoped to avoid much trouble and litigation by making each of the Governments lately at war responsible for the collection of private *debts* due from its nationals to the nationals of any of the other Governments (the normal process of collection having been suspended by reason of the war), and for the distribution of the funds so collected to those of its nationals who had *claims* against the nationals of the other Governments, any final balance either way being settled in cash. Such a scheme could have been completely bilateral and reciprocal. And so in part it is, the scheme being

<sup>1</sup> Part X. Sections III. and IV. and Art. 243.

mainly reciprocal as regards the collection of commercial debts. But the completeness of their victory permitted the Allied Governments to introduce in their own favour many divergencies from reciprocity, of which the following are the chief: Whereas the property of Allied nationals within German jurisdiction reverts under the Treaty to Allied ownership on the conclusion of Peace, the property of Germans within Allied jurisdiction is to be retained and liquidated as described above, with the result that the whole of German property over a large part of the world can be expropriated, and the large properties now within the custody of Public Trustees and similar officials in the Allied countries may be retained permanently. In the second place, such German assets are chargeable, not only with the liabilities of Germans, but also, if they run to it, with "payment of the amounts due in respect of claims by the nationals of such Allied or Associated Power with regard to their property, rights, and interests in the territory of other Enemy Powers," as, for example, Turkey, Bulgaria, and Austria.<sup>1</sup> This is a remarkable provision, which is naturally non-reciprocal. In the third place, any final balance due to Germany on private account need not be paid over, but can be held against the various liabilities of the German Government.<sup>2</sup>

<sup>1</sup> The interpretation of the words between inverted commas is a little dubious. The phrase is so wide as to seem to include private debts. But in the final draft of the Treaty private debts are not explicitly referred to.

<sup>2</sup> This provision is mitigated in the case of German property in Poland and the other new States, the proceeds of liquidation in these areas being payable direct to the owner (Art. 92).



The effective operation of these Articles is guaranteed by the delivery of deeds, titles, and information.<sup>1</sup> In the fourth place, pre-war contracts between Allied and German nationals may be cancelled or revived at the option of the former, so that all such contracts which are in Germany's favour will be cancelled, while, on the other hand, she will be compelled to fulfil those which are to her disadvantage.

(b) So far we have been concerned with German property within Allied jurisdiction. The next provision is aimed at the elimination of German interests in the territory of her neighbours and former allies, and of certain other countries. Under Article 260 of the Financial Clauses it is provided that the Reparation Commission may, within one year of the coming into force of the Treaty, demand that the German Government expropriate its nationals and deliver to the Reparation Commission "any rights and interests of German nationals in any public utility undertaking or in any concession<sup>2</sup> operating

<sup>1</sup> Part X. Section IV. Annex, para. 10: "Germany will, within six months from the coming into force of the present Treaty, deliver to each Allied or Associated Power all securities, certificates, deeds, or other documents of title held by its nationals and relating to property, rights, or interests situated in the territory of that Allied or Associated Power. . . . Germany will at any time on demand of any Allied or Associated Power furnish such information as may be required with regard to the property, rights, and interests of German nationals within the territory of such Allied or Associated Power, or with regard to any transactions concerning such property, rights, or interests effected since July 1, 1914."

<sup>2</sup> "Any public utility undertaking or concession" is a vague phrase, the precise interpretation of which is not provided for.

in Russia, China, Turkey, Austria, Hungary, and Bulgaria, or in the possessions or dependencies of these States, or in any territory formerly belonging to Germany or her allies, to be ceded by Germany or her allies to any Power or to be administered by a Mandatory under the present Treaty." This is a comprehensive description, overlapping in part the provisions dealt with under (a) above, but including, it should be noted, the new States and territories carved out of the former Russian, Austro-Hungarian, and Turkish Empires. Thus Germany's influence is eliminated and her capital confiscated in all those neighbouring countries to which she might naturally look for her future livelihood, and for an outlet for her energy, enterprise, and technical skill.

The execution of this programme in detail will throw on the Reparation Commission a peculiar task, as it will become possessor of a great number of rights and interests over a vast territory owing dubious obedience, disordered by war, disruption, and Bolshevism. The division of the spoils between the victors will also provide employment for a powerful office, whose doorsteps the greedy adventurers and jealous concession-hunters of twenty or thirty nations will crowd and defile.

Lest the Reparation Commission fail by ignorance to exercise its rights to the full, it is further provided that the German Government shall communicate to it within six months of the Treaty's coming into

force a list of all the rights and interests in question, "whether already granted, contingent or not yet exercised," and any which are not so communicated within this period will automatically lapse in favour of the Allied Governments.<sup>1</sup> How far an edict of this character can be made binding on a German national, whose person and property lie outside the jurisdiction of his own Government, is an unsettled question; but all the countries specified in the above list are open to pressure by the Allied authorities, whether by the imposition of an appropriate Treaty clause or otherwise.

(c) There remains a third provision more sweeping than either of the above, neither of which affects German interests in *neutral* countries. The Reparation Commission is empowered up to May 1, 1921, to demand payment up to £1,000,000,000 *in such manner as they may fix*, "whether in gold, commodities, ships, securities or otherwise."<sup>2</sup> This provision has the effect of entrusting to the Reparation Commission for the period in question dictatorial powers over all German property of every description whatever. They can, under this Article, point to any specific business, enterprise, or property, whether within or outside Germany, and demand its surrender; and their authority would appear to extend not only to property existing at the date of the Peace, but also to any which may be created or acquired at any

<sup>1</sup> Art. 260.

<sup>2</sup> Art. 235.

time in the course of the next eighteen months. For example, they could pick out—as presumably they will as soon as they are established—the fine and powerful German enterprise in South America known as the *Deutsche Ueberseeische Elektrizitätsgesellschaft* (the D.U.E.G.), and dispose of it to Allied interests. The clause is unequivocal and all-embracing. It is worth while to note in passing that it introduces a quite novel principle in the collection of indemnities. Hitherto, a sum has been fixed, and the nation mulcted has been left free to devise and select for itself the means of payment. But in this case the payees can (for a certain period) not only demand a certain sum but specify the particular kind of property in which payment is to be effected. Thus the powers of the Reparation Commission, with which I deal more particularly in the next chapter, can be employed to destroy Germany's commercial and economic organisation as well as to exact payment.

The cumulative effect of (a), (b), and (c) (as well as of certain other minor provisions on which I have not thought it necessary to enlarge) is to deprive Germany (or rather to empower the Allies so to deprive her at their will—it is not yet accomplished) of everything she possesses outside her own frontiers as laid down in the Treaty. Not only are her overseas investments taken and her connections destroyed, but the same process of extirpation is applied in the

territories of her former allies and of her immediate neighbours by land.

(5) Lest by some oversight the above provisions should overlook any possible contingencies, certain other Articles appear in the Treaty, which probably do not add very much in practical effect to those already described, but which deserve brief mention as showing the spirit of completeness in which the victorious Powers entered upon the economic subjection of their defeated enemy.

First of all there is a general clause of barrer and renunciation: "In territory outside her European frontiers as fixed by the present Treaty, Germany renounces all rights, titles and privileges whatever in or over territory which belonged to her or to her allies, and all rights, titles and privileges whatever their origin which she held as against the Allied and Associated Powers. . . ."<sup>1</sup>

There follow certain more particular provisions. Germany renounces all rights and privileges she may have acquired in China.<sup>2</sup> There are similar provisions for Siam,<sup>3</sup> for Liberia,<sup>4</sup> for Morocco,<sup>5</sup> and for Egypt.<sup>6</sup> In the case of Egypt not only are special privileges

<sup>1</sup> Art. 118.

<sup>2</sup> Arts. 129 and 132.

<sup>3</sup> Arts. 135-137.

<sup>4</sup> Arts. 135-140.

<sup>5</sup> Art. 141: "Germany renounces all rights, titles and privileges conferred on her by the General Act of Algeiras of April 7, 1906, and by the Franco-German Agreements, of Feb. 9, 1909, and Nov. 4, 1911. . . ."

<sup>6</sup> Art. 148: "All treaties, agreements, arrangements and contracts concluded by Germany with Egypt are regarded as abrogated from Aug. 4, 1914." Art. 153: "All property and possessions in Egypt of the German Empire and the German States pass to the Egyptian Government without payment."

renounced, but by Article 150 ordinary liberties are withdrawn, the Egyptian Government being accorded "complete liberty of action in regulating the status of German nationals and the conditions under which they may establish themselves in Egypt."

By Article 258 Germany renounces her right to any participation in any financial or economic organisations of an international character "operating in any of the Allied or Associated States, or in Austria, Hungary, Bulgaria or Turkey, or in the dependencies of these States, or in the former Russian Empire."

Generally speaking, only those pre-war treaties and conventions are revived which it suits the Allied Governments to revive, and those in Germany's favour may be allowed to lapse.<sup>1</sup>

It is evident, however, that none of these provisions are of any real importance, as compared with those described previously. They represent the logical completion of Germany's outlawry and economic subjection to the convenience of the Allies; but they do not add substantially to her effective disabilities.

## II

The provisions relating to coal and iron are more important in respect of their ultimate consequences on Germany's internal industrial economy than for the money value immediately involved. The German

<sup>1</sup> Art. 289.

Empire has been built more truly on coal and iron than on blood and iron. The skilled exploitation of the great coalfields of the Ruhr, Upper Silesia, and the Saar, alone made possible the development of the steel, chemical, and electrical industries which established her as the first industrial nation of continental Europe. One-third of Germany's population lives in towns of more than 20,000 inhabitants, an industrial concentration which is only possible on a foundation of coal and iron. In striking, therefore, at her coal supply, the French politicians were not mistaking their target. It is only the extreme immoderation, and indeed technical impossibility, of the Treaty's demands which may save the situation in the long-run.

(1) The Treaty strikes at Germany's coal supply in four ways :—

(i.) "As compensation for the destruction of the coal-mines in the north of France, and as part payment towards the total reparation due from Germany for the damage resulting from the war, Germany cedes to France in full and absolute possession, with exclusive rights of exploitation, unencumbered, and free from all debts and charges of any kind, the coal-mines situated in the Saar Basin."<sup>1</sup> While the administration of this district is vested for fifteen years in the League of Nations, it is to be observed that the mines are ceded to France absolutely. Fifteen

<sup>1</sup> Art. 45.

years hence the population of the district will be called upon to indicate by plebiscite their desires as to the future sovereignty of the territory ; and, in the event of their electing for union with Germany, Germany is to be entitled to repurchase the mines at a price payable in gold.<sup>1</sup>

The judgment of the world has already recognised the transaction of the Saar as an act of spoliation and insincerity. So far as compensation for the destruction of French coal-mines is concerned, this is provided for, as we shall see in a moment, elsewhere in the Treaty. "There is no industrial region in Germany," the German representatives have said without contradiction, "the population of which is so permanent, so homogeneous, and so little complex as that of the Saar district. Among more than 650,000 inhabitants, there were in 1918 less than 100 French. The Saar district has been German for more than 1000 years. Temporary occupation as a result of warlike operations on the part of the French always terminated in a short time in the restoration of the country upon the conclusion of peace. During a period of 1048 years France has possessed the country for not quite 68 years in all. When, on the occasion of the first Treaty of Paris in 1814, a small portion of the territory now coveted was retained for France, the population raised the most energetic opposition and demanded

<sup>1</sup> Part IV. Section IV. Annex, Chap. III.



'reunion with their German fatherland,' to which they were 'related by language, customs, and religion.' After an occupation of one year and a quarter, this desire was taken into account in the second Treaty of Paris in 1815. Since then the country has remained uninterruptedly attached to Germany, and owes its economic development to that connection."

The French wanted the coal for the purpose of working the ironfields of Lorraine, and in the spirit of Bismarck they have taken it. Not precedent, but the verbal professions of the Allies, have rendered it indefensible.<sup>1</sup>

(ii.) Upper Silesia, a district without large towns, in which, however, lies one of the major coalfields of Germany with a production of about 23 per cent of the total German output of hard coal, is, subject to a plebiscite,<sup>2</sup> to be ceded to Poland. Upper Silesia

<sup>1</sup> "We take over the ownership of the Sarre mines, and in order not to be inconvenienced in the exploitation of these coal deposits, we constitute a distinct little estate for the 600,000 Germans who inhabit this coal basin, and in fifteen years we shall endeavour by a plebiscite to bring them to declare that they want to be French. We know what that means. During fifteen years we are going to work on them, to attack them from every point, till we obtain from them a declaration of love. It is evidently a less brutal proceeding than the *coup de force* which detached from us our Alsatians and Lorrainers. But if less brutal, it is more hypocritical. We know quite well between ourselves that it is an attempt to annex these 600,000 Germans. One can understand very well the reasons of an economic nature which have led Clemenceau to wish to give us these Sarre coal deposits, but in order to acquire them, must we give ourselves the appearance of wanting to juggle with 600,000 Germans in order to make Frenchmen of them in fifteen years?" (M. Hervé in *La Victoire*, May 31, 1919).

<sup>2</sup> This plebiscite is the most important of the concessions accorded to Germany in the Allies' Final Note, and one for which Mr. Lloyd George, who never approved the Allies' policy on the Eastern frontiers of Germany, can claim the chief credit. The vote cannot take place before the spring of 1920,

was never part of historic Poland; but its population is mixed Polish, German, and Czecho-Slovakian, the precise proportions of which are disputed.<sup>1</sup> Economically it is intensely German; the industries of Eastern Germany depend upon it for their coal; and its loss would be a destructive blow at the economic structure of the German State.<sup>2</sup>

With the loss of the fields of Upper Silesia and the Saar, the coal supplies of Germany are diminished by not far short of one-third.

(iii.) Out of the coal that remains to her, Germany is obliged to make good year by year the estimated loss which France has incurred by the destruction

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and may be postponed until 1921. In the meantime the province will be governed by an Allied Commission. The vote will be taken by communes, and the final frontiers will be determined by the Allies, who shall have regard, partly to the results of the vote in each commune, and partly "to the geographical and economic conditions of the locality." It would require great local knowledge to predict the result. By voting Polish, a locality can escape liability for the indemnity and for the crushing taxation consequent on voting German, a factor not to be neglected. On the other hand, the bankruptcy and incompetence of the new Polish State might deter those who were disposed to vote on economic rather than on racial grounds. It has also been stated that the conditions of life in such matters as sanitation and social legislation are incomparably better in Upper Silesia than in the adjacent districts of Poland, where similar legislation is in its infancy. The argument in the text assumes that Upper Silesia will cease to be German. But much may happen in a year, and the assumption is not certain. To the extent that it proves erroneous the conclusions must be modified.

<sup>1</sup> German authorities claim, not without contradiction, that to judge from the votes cast at elections, one-third of the population would elect in the Polish interest, and two-thirds in the German.

<sup>2</sup> It must not be overlooked, however, that, amongst the other concessions relating to Silesia accorded in the Allies' Final Note, there has been included Article 90, by which "Poland undertakes to permit for a period of fifteen years the exportation to Germany of the products of the mines in any part

and damage of war in the coalfields of her northern Provinces. In para. 2 of Annex V. to the Reparation Chapter, "Germany undertakes to deliver to France annually, for a period not exceeding ten years, an amount of coal equal to the difference between the annual production before the war of the coal-mines of the Nord and Pas de Calais, destroyed as a result of the war, and the production of the mines of the same area during the year in question: such delivery not to exceed 20,000,000 tons in any one year of the first five years, and 8,000,000 tons in any one year of the succeeding five years."

This is a reasonable provision if it stood by itself,

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of Upper Silesia transferred to Poland in accordance with the present Treaty. Such products shall be free from all export duties or other charges or restrictions on exportation. Poland agrees to take such steps as may be necessary to secure that any such products shall be available for sale to purchasers in Germany on terms as favourable as are applicable to like products sold under similar conditions to purchasers in Poland or in any other country." This does not apparently amount to a right of pre-emption, and it is not easy to estimate its effective practical consequences. It is evident, however, that in so far as the mines are maintained at their former efficiency, and in so far as Germany is in a position to purchase substantially her former supplies from that source, the loss is limited to the effect on her balance of trade, and is without the more serious repercussions on her economic life which are contemplated in the text. Here is an opportunity for the Allies to render more tolerable the actual operation of the settlement. The Germans, it should be added, have pointed out that the same economic argument which adds the Saar fields to France, allots Upper Silesia to Germany. For whereas the Silesian mines are essential to the economic life of Germany, Poland does not need them. Of Poland's pre-war annual demand of 10,500,000 tons, 6,800,000 tons were supplied by the indisputably Polish districts adjacent to Upper Silesia, 1,500,000 tons from Upper Silesia (out of a total Upper Silesian output of 43,500,000 tons), and the balance from what is now Czecho-Slovakia. Even without any supply from Upper Silesia and Czecho-Slovakia, Poland could probably meet her requirements by the fuller exploitation of her own coalfields which are not yet scientifically developed, or from the deposits of Western Galicia which are now to be annexed to her.

and one which Germany should be able to fulfil if she were left her other resources to do it with.

(iv.) The final provision relating to coal is part of the general scheme of the Reparation Chapter by which the sums due for Reparation are to be partly paid in kind instead of in cash. As a part of the payment due for Reparation, Germany is to make the following deliveries of coal or its equivalent in coke (the deliveries to France being wholly additional to the amounts available by the cession of the Saar or in compensation for destruction in Northern France):—

(i.) To France 7,000,000 tons annually for ten years;<sup>1</sup>

(ii.) To Belgium 8,000,000 tons annually for ten years;

(iii.) To Italy an annual quantity, rising by annual increments from 4,500,000 tons in 1919–1920 to 8,500,000 tons in each of the six years, 1923–1924 to 1928–1929;

(iv.) To Luxemburg, if required, a quantity of coal equal to the pre-war annual consumption of German coal in Luxemburg.

This amounts in all to an annual average of about 25,000,000 tons.

These figures have to be examined in relation to Germany's probable output. The maximum pre-war

<sup>1</sup> France is also to receive annually for three years 35,000 tons of benzol, 50,000 tons of coal tar, and 30,000 tons of sulphate of ammonia.

figure was reached in 1913 with a total of 191,500,000 tons. Of this, 19,000,000 tons were consumed at the mines, and on balance (*i.e.* exports less imports) 33,500,000 tons were exported, leaving 139,000,000 tons for domestic consumption. It is estimated that this total was employed as follows :—

Railways . . . . .	18,000,000 tons.
Gas, water, and electricity . . . . .	12,500,000 „
Bunkers . . . . .	6,500,000 „
House-fuel, small industry and agriculture . . . . .	24,000,000 „
Industry . . . . .	78,000,000 „
	<hr/>
	139,000,000 „

The diminution of production due to loss of territory is :—

Alsace-Lorraine . . . . .	3,800,000 tons.
Saar Basin . . . . .	13,200,000 „
Upper Silesia . . . . .	43,800,000 „
	<hr/>
	60,800,000 „

There would remain, therefore, on the basis of the 1913 output, 130,700,000 tons, or, deducting consumption at the mines themselves, (say) 118,000,000 tons. For some years there must be sent out of this supply upwards of 20,000,000 tons to France as compensation for damage done to French mines, and 25,000,000 tons to France, Belgium, Italy, and

Luxemburg;<sup>1</sup> as the former figure is a maximum, and the latter figure is to be slightly less in the earliest years, we may take the total export to Allied countries which Germany has undertaken to provide as 40,000,000 tons, leaving, on the above basis, 78,000,000 tons for her own use as against a pre-war consumption of 139,000,000 tons.

This comparison, however, requires substantial modification to make it accurate. On the one hand, it is certain that the figures of pre-war output cannot be relied on as a basis of present output. During 1918 the production was 161,500,000 tons as compared with 191,500,000 tons in 1913; and during the first half of 1919 it was less than 50,000,000 tons, exclusive of Alsace-Lorraine and the Saar but including Upper Silesia, corresponding to an annual production of about 100,000,000 tons.<sup>2</sup> The causes of so low an output were in part temporary and exceptional, but the German authorities agree, and have not been con-

<sup>1</sup> The Reparation Commission is authorised under the Treaty (Part VIII. Annex V. para. 10) "to postpone or to cancel deliveries" if they consider "that the full exercise of the foregoing options would interfere unduly with the industrial requirements of Germany." In the event of such postponements or cancellations "the coal to replace coal from destroyed mines shall receive priority over other deliveries." This concluding clause is of the greatest importance, if, as will be seen, it is physically impossible for Germany to furnish the full 45,000,000; for it means that France will receive 20,000,000 tons before Italy receives anything. The Reparation Commission has no discretion to modify this. The Italian Press has not failed to notice the significance of the provision, and alleges that this clause was inserted during the absence of the Italian representatives from Paris (*Corriere della Sera*, July 19, 1919).

<sup>2</sup> It follows that the current rate of production in Germany has sunk to about 60 per cent of that of 1913. The effect on reserves has naturally been disastrous, and the prospects for the coming winter are dangerous.

futed, that some of them are bound to persist for some time to come. In part they are the same as elsewhere; the daily shift has been shortened from  $8\frac{1}{2}$  to 7 hours, and it is improbable that the powers of the Central Government will be adequate to restore them to their former figure. But in addition, the mining plant is in bad condition (due to the lack of certain essential materials during the blockade), the physical efficiency of the men is greatly impaired by malnutrition (which cannot be cured if a tithe of the reparation demands are to be satisfied,—the standard of life will have rather to be lowered), and the casualties of the war have diminished the numbers of efficient miners. The analogy of English conditions is sufficient by itself to tell us that a pre-war level of output cannot be expected in Germany. German authorities put the loss of output at somewhat above 30 per cent, divided about equally between the shortening of the shift and the other economic influences. This figure appears on general grounds to be plausible, but I have not the knowledge to endorse or to criticise it.

The pre-war figure of 118,000,000 tons net (*i.e.* after allowing for loss of territory and consumption at the mines) is likely to fall, therefore, at least as low as to 100,000,000<sup>1</sup> tons, having regard to the above factors. If 40,000,000 tons of this are

<sup>1</sup> This assumes a loss of output of 15 per cent as compared with the estimate of 30 per cent quoted above.

to be exported to the Allies, there remain 60,000,000 tons for Germany herself to meet her own domestic consumption. Demand as well as supply will be diminished by loss of territory, but at the most extravagant estimate this could not be put above 29,000,000 tons.<sup>1</sup> Our hypothetical calculations, therefore, leave us with post-war German domestic requirements, on the basis of a pre-war efficiency of railways and industry, of 110,000,000 tons against an output not exceeding 100,000,000 tons, of which 40,000,000 tons are mortgaged to the Allies.

The importance of the subject has led me into a somewhat lengthy statistical analysis. It is evident that too much significance must not be attached to the precise figures arrived at, which are hypothetical and dubious.<sup>2</sup> But the general character of the facts presents itself irresistibly. Allowing for the loss of territory and the loss of efficiency, Germany cannot export coal in the near future (and will even be dependent on her Treaty rights to purchase in Upper Silesia), if she is to continue as an industrial nation.

<sup>1</sup> This supposes a loss of 25 per cent of Germany's industrial undertakings and a diminution of 13 per cent in her other requirements.

<sup>2</sup> The reader must be reminded in particular that the above calculations take no account of the German production of lignite, which yielded in 1913 13,000,000 tons of rough lignite in addition to an amount converted into 21,000,000 tons of briquette. This amount of lignite, however, was required in Germany before the war *in addition* to the quantities of coal assumed above. I am not competent to speak on the extent to which the loss of coal can be made good by the extended use of lignite or by economies in its present employment; but some authorities believe that Germany may obtain substantial compensation for her loss of coal by paying more attention to her deposits of lignite.



Every million tons she is forced to export must be at the expense of closing down an industry. With results to be considered later this within certain limits is *possible*. But it is evident that Germany cannot and will not furnish the Allies with a contribution of 40,000,000 tons annually. Those Allied Ministers, who have told their peoples that she can, have certainly deceived them for the sake of allaying for the moment the misgivings of the European peoples as to the path along which they are being led.

The presence of these illusory provisions (amongst others) in the clauses of the Treaty of Peace is especially charged with danger for the future. The more extravagant expectations as to Reparation receipts, by which Finance Ministers have deceived their publics, will be heard of no more when they have served their immediate purpose of postponing the hour of taxation and retrenchment. But the coal clauses will not be lost sight of so easily,—for the reason that it will be absolutely vital in the interests of France and Italy that these countries should do everything in their power to exact their bond. As a result of the diminished output due to German destruction in France, of the diminished output of mines in the United Kingdom and elsewhere, and of many secondary causes, such as the breakdown of transport and of organisation and the inefficiency of new governments, the coal position of all Europe is

nearly desperate; <sup>1</sup> and France and Italy, entering the scramble with certain Treaty rights, will not lightly surrender them.

As is generally the case in real dilemmas, the French and Italian case will possess great force, indeed unanswerable force from a certain point of view. The position will be truly represented as a question between German industry on the one hand and French and Italian industry on the other. It may be admitted that the surrender of the coal will destroy German industry; but it may be equally true that its non-surrender will jeopardise French and Italian industry. In such a case must not the victors with their Treaty rights prevail, especially when much of the damage has been ultimately due to the wicked acts of those who are now defeated? Yet if these feelings and these rights are allowed to prevail beyond what wisdom would recommend, the reactions on the social and economic life of Central Europe will be far too strong to be confined within their original limits.

But this is not yet the whole problem. If France and Italy are to make good their own deficiencies in coal from the output of Germany, then Northern Europe, Switzerland, and Austria, which previously

<sup>1</sup> Mr. Hoover, in July 1919, estimated that the coal output of Europe, excluding Russia and the Balkans, had dropped from 679,500,000 tons to 443,000,000 tons,—as a result in a minor degree of loss of material and labour, but owing chiefly to a relaxation of physical effort after the privations and sufferings of the war, a lack of rolling-stock and transport, and the unsettled political fate of some of the mining districts.

drew their coal in large part from Germany's exportable surplus, must be starved of their supplies. Before the war 13,600,000 tons of Germany's coal exports went to Austria-Hungary. Inasmuch as nearly all the coalfields of the former Empire lie outside what is now German-Austria, the industrial ruin of this latter state, if she cannot obtain coal from Germany, will be complete. The case of Germany's neutral neighbours, who were formerly supplied in part from Great Britain but in large part from Germany, will be hardly less serious. They will go to great lengths in the direction of making their own supplies to Germany of materials which are essential to her, conditional on these being paid for in coal. Indeed they are already doing so.<sup>1</sup> With the breakdown of money economy the practice of international barter is becoming prevalent. Nowadays money in Central and South-Eastern Europe is seldom a true measure of value in exchange, and will not necessarily buy anything, with the consequence that one country, possessing a commodity essential to the needs of another, sells it not for cash but only against a reciprocal engagement on the part of the latter country to furnish in return some article not less necessary to the former. This is an extraordinary

<sup>1</sup> Numerous commercial agreements during the war were arranged on these lines. But in the month of June 1919 alone, minor agreements providing for payment in coal were made by Germany with Denmark, Norway, and Switzerland. The amounts involved were not large, but without them Germany could not have obtained butter from Denmark, fats and herrings from Norway, or milk and cattle from Switzerland.

complication as compared with the former almost perfect simplicity of international trade. But in the no less extraordinary conditions of to-day's industry it is not without advantages as a means of stimulating production. The butter-shifts of the Ruhr<sup>1</sup> show how far modern Europe has retrograded in the direction of barter, and afford a picturesque illustration of the low economic organisation to which the breakdown of currency and free exchange between individuals and nations is quickly leading us. But they may produce the coal where other devices would fail.<sup>2</sup>

Yet if Germany can find coal for the neighbouring neutrals, France and Italy may loudly claim that in this case she can and must keep her treaty obligations. In this there will be a great show of justice, and it will be difficult to weigh against such claims the possible facts that, while German miners will work for butter, there is no available means of compelling them to get coal, the sale of which will bring in nothing, and that if Germany has no coal to send to her neighbours she may fail to secure imports essential to her economic existence.

If the distribution of the European coal supplies is to be a scramble in which France is satisfied first, Italy next, and every one else takes their chance, the

<sup>1</sup> "Some 60,000 Ruhr miners have agreed to work extra shifts—so-called butter-shifts—for the purpose of furnishing coal for export to Denmark, whence butter will be exported in return. The butter will benefit the miners in the first place, as they have worked specially to obtain it" (*Kölnische Zeitung*, June 11, 1919).

<sup>2</sup> What of the prospects of whisky-shifts in England?

industrial future of Europe is black and the prospects of revolution very good. It is a case where particular interests and particular claims, however well founded in sentiment or in justice, must yield to sovereign expediency. If there is any approximate truth in Mr. Hoover's calculation that the coal output of Europe has fallen by one-third, a situation confronts us where distribution must be effected with even-handed impartiality in accordance with need, and no incentive can be neglected towards increased production and economical methods of transport. The establishment by the Supreme Council of the Allies in August 1919, of a European Coal Commission, consisting of delegates from Great Britain, France, Italy, Belgium, Poland, and Czecho-Slovakia was a wise measure which, properly employed and extended, may prove of great assistance. But I reserve constructive proposals for Chapter VII. Here I am only concerned with tracing the consequences, *per impossibile*, of carrying out the Treaty *au pied de la lettre*.<sup>1</sup>

(2) The provisions relating to iron-ore require less

<sup>1</sup> As early as September 1, 1919, the Coal Commission had to face the physical impracticability of enforcing the demands of the Treaty, and agreed to modify them as follows:—"Germany shall in the next six months make deliveries corresponding to an annual delivery of 20 million tons as compared with 43 millions as provided in the Peace Treaty. If Germany's total production exceeds the present level of about 108 millions a year, 60 per cent of the extra production, up to 128 millions, shall be delivered to the Entente, and 50 per cent of any extra beyond that, until the figure provided in the Peace Treaty is reached. If the total production falls below 108 millions the Entente will examine the situation, after hearing Germany, and take account of it."

detailed attention, though their effects are destructive. They require less attention, because they are in large measure inevitable. Almost exactly 75 per cent of the iron-ore raised in Germany in 1913 came from Alsace-Lorraine.<sup>1</sup> In this the chief importance of the stolen provinces lay.

There is no question but that Germany must lose these ore-fields. The only question is how far she is to be allowed facilities for purchasing their produce. The German Delegation made strong efforts to secure the inclusion of a provision by which coal and coke to be furnished by them to France should be given in exchange for *minette* from Lorraine. But they secured no such stipulation, and the matter remains at France's option.

The motives which will govern France's eventual policy are not entirely concordant. While Lorraine comprised 75 per cent of Germany's iron-ore, only 25 per cent of the blast furnaces lay within Lorraine and the Saar basin together, a large proportion of the ore being carried into Germany proper. Approximately the same proportion of Germany's iron and steel foundries, namely 25 per cent, were situated in Alsace-Lorraine. For the moment, therefore, the most economical and profitable course would certainly

<sup>1</sup> 21,136,265 tons out of a total of 28,607,903 tons. The loss of iron-ore in respect of Upper Silesia is insignificant. The exclusion of the iron and steel of Luxemburg from the German Customs Union is, however, important, especially when this loss is added to that of Alsace-Lorraine. It may be added in passing that Upper Silesia includes 75 per cent of the zinc production of Germany.

be to export to Germany, as hitherto, a considerable part of the output of the mines.

On the other hand, France, having recovered the deposits of Lorraine, may be expected to aim at replacing as far as possible the industries, which Germany had based on them, by industries situated within her own frontiers. Much time must elapse before the plant and the skilled labour could be developed within France, and even so she could hardly deal with the ore unless she could rely on receiving the coal from Germany. The uncertainty, too, as to the ultimate fate of the Saar will be disturbing to the calculations of capitalists who contemplate the establishment of new industries in France.

In fact, here, as elsewhere, political considerations cut disastrously across economic. In a régime of Free Trade and free economic intercourse it would be of little consequence that iron lay on one side of a political frontier, and labour, coal, and blast furnaces on the other. But as it is, men have devised ways to impoverish themselves and one another; and prefer collective animosities to individual happiness. It seems certain, calculating on the present passions and impulses of European capitalistic society, that the effective iron output of Europe will be diminished by a new political frontier (which sentiment and historic justice require), because nationalism and private interest are thus allowed to impose a new economic frontier along the same lines. These latter considera-

tions are allowed, in the present governance of Europe, to prevail over the intense need of the Continent for the most sustained and efficient production to repair the destructions of war, and to satisfy the insistence of labour for a larger reward.<sup>1</sup>

The same influences are likely to be seen, though on a lesser scale, in the event of the transference of Upper Silesia to Poland. While Upper Silesia contains but little iron, the presence of coal has led to the establishment of numerous blast furnaces. What is to be the fate of these? If Germany is cut off from her supplies of ore on the west, will she export beyond her frontiers on the east any part of the little which remains to her? The efficiency and output of the industry seem certain to diminish.

Thus the Treaty strikes at organisation, and by the destruction of organisation impairs yet further the reduced wealth of the whole community. The economic frontiers which are to be established between the coal and the iron, upon which modern industrialism is founded, will not only diminish the production of useful commodities, but may possibly occupy an immense quantity of human labour in dragging iron

<sup>1</sup> In April 1919, the British Ministry of Munitions despatched an expert Commission to examine the conditions of the iron and steel works in Lorraine and the occupied areas of Germany. The Report states that the iron and steel works in Lorraine, and to a lesser extent in the Saar Valley, are dependent on supplies of coal and coke from Westphalia. It is necessary to mix Westphalian coal with Saar coal to obtain a good furnace coke. The entire dependence of all the Lorraine iron and steel works upon Germany for fuel supplies "places them," says the Report, "in a very unenviable position."



or coal, as the case may be, over many useless miles to satisfy the dictates of a political treaty or because obstructions have been established to the proper localisation of industry.

### III

There remain those Treaty provisions which relate to the transport and the tariff systems of Germany. These parts of the Treaty have not nearly the importance and the significance of those discussed hitherto. They are pin-pricks, interferences and vexations, not so much objectionable for their solid consequences, as dishonourable to the Allies in the light of their professions. Let the reader consider what follows in the light of the assurances already quoted, in reliance on which Germany laid down her arms.

(i.) The miscellaneous Economic Clauses commence with a number of provisions which would be in accordance with the spirit of the third of the Fourteen Points,—if they were reciprocal. Both for imports and exports, and as regards tariffs, regulations, and prohibitions, Germany binds herself for five years to accord most-favoured-nation treatment to the Allied and Associated States.<sup>1</sup> But she is not entitled herself to receive such treatment.

For five years Alsace-Lorraine shall be free to

<sup>1</sup> Arts. 264, 265, 266, and 267. These provisions can only be extended beyond five years by the Council of the League of Nations.

export into Germany, without payment of customs duty, up to the average amount sent annually into Germany from 1911 to 1913.<sup>1</sup> But there is no similar provision for German exports into Alsace-Lorraine.

For three years Polish exports to Germany, and for five years Luxemburg's exports to Germany, are to have a similar privilege,<sup>2</sup>—but not German exports to Poland or to Luxemburg. Luxemburg also, which for many years has enjoyed the benefits of inclusion within the German Customs Union, is permanently excluded from it henceforward.<sup>3</sup>

For six months after the Treaty has come into force Germany may not impose duties on imports from the Allied and Associated States higher than the most favourable duties prevalent before the war; and for a further two years and a half (making three years in all) this prohibition continues to apply to certain commodities, notably to some of those as to which special agreements existed before the war, and also to wine, to vegetable oils, to artificial silk, and to washed or scoured wool.<sup>4</sup> This is a ridiculous and injurious provision, by which Germany is prevented from taking those steps necessary to conserve her limited

<sup>1</sup> Art. 268 (a).

<sup>2</sup> Art. 268 (b) and (c).

<sup>3</sup> The Grand Duchy is also deneutralised and Germany binds herself to "accept in advance all international arrangements which may be concluded by the Allied and Associated Powers relating to the Grand Duchy" (Art. 40). At the end of September 1919 a plebiscite was held to determine whether Luxemburg should join the French or the Belgian Customs Union, which decided by a substantial majority in favour of the former. The third alternative of the maintenance of the union with Germany was not left open to the electorate.

<sup>4</sup> Art. 269.

resources for the purchase of necessities and the discharge of Reparation. As a result of the existing distribution of wealth in Germany, and of financial wantonness amongst individuals, the offspring of uncertainty, Germany is threatened with a deluge of luxuries and semi-luxuries from abroad, of which she has been starved for years, which would exhaust or diminish her small supplies of foreign exchange. These provisions strike at the authority of the German Government to ensure economy in such consumption, or to raise taxation during a critical period. What an example of senseless greed overreaching itself, to introduce, after taking from Germany what liquid wealth she has and demanding impossible payments for the future, a special and particularised injunction that she must allow as readily as in the days of her prosperity the import of champagne and of silk!

One other Article affects the Customs Régime of Germany which, if it was applied, would be serious and extensive in its consequences. The Allies have reserved the right to apply a special customs régime to the occupied area on the left bank of the Rhine, "in the event of such a measure being necessary in their opinion in order to safeguard the economic interests of the population of these territories."<sup>1</sup> This provision was probably introduced as a possibly useful adjunct to the French policy of somehow detaching the left bank provinces from

<sup>1</sup> Art. 270.

Germany during the years of their occupation. The project of establishing an independent Republic under French clerical auspices, which would act as a buffer state and realise the French ambition of driving Germany proper beyond the Rhine, has not yet been abandoned. Some believe that much may be accomplished by a régime of threats, bribes, and cajolery extended over a period of fifteen years or longer.<sup>1</sup> If this Article is acted upon, and the economic system of the left bank of the Rhine is effectively severed

<sup>1</sup> The occupation provisions may be conveniently summarised at this point. German territory situated west of the Rhine, together with the bridge-heads, is subject to occupation for a period of fifteen years (Art. 428). If, however, "the conditions of the present Treaty are faithfully carried out by Germany," the Cologne district will be evacuated after five years, and the Coblenz district after ten years (Art. 429). It is, however, further provided that if at the expiration of fifteen years "the guarantees against unprovoked aggression by Germany are not considered sufficient by the Allied and Associated Governments, the evacuation of the occupying troops may be delayed to the extent regarded as necessary for the purpose of obtaining the required guarantees" (Art. 429); and also that "in case either during the occupation or after the expiration of the fifteen years, the Reparation Commission finds that Germany refuses to observe the whole or part of her obligations under the present Treaty with regard to Reparation, the whole or part of the areas specified in Article 429 will be re-occupied immediately by the Allied and Associated Powers" (Art. 430). Since it will be impossible for Germany to fulfil the whole of her Reparation obligations, the effect of the above provisions will be in practice that the Allies will occupy the left bank of the Rhine just so long as they choose. They will also govern it in such manner as they may determine (*e.g.* not only as regards customs, but such matters as the respective authority of the local German representatives and the Allied Governing Commission), since "all matters relating to the occupation and not provided for by the present Treaty shall be regulated by subsequent agreements, which Germany hereby undertakes to observe" (Art. 432). The actual Agreement under which the occupied areas are to be administered for the present has been published as a White Paper [Cd. 222]. The supreme authority is to be in the hands of an Inter-Allied Rhineland Commission, consisting of a Belgian, a French, a British, and an American member. The articles of this Agreement are very fairly and reasonably drawn.

from the rest of Germany, the effect would be far-reaching. But the dreams of designing diplomats do not always prosper, and we must trust the future.

(ii.) The clauses relating to Railways, as originally presented to Germany, were substantially modified in the final Treaty, and are now limited to a provision by which goods coming from Allied territory to Germany, or in transit through Germany, shall receive the most favoured treatment as regards rail freight, rates, etc., applied to goods of the same kind carried on *any* German lines "under similar conditions of transport, for example, as regards length of route."<sup>1</sup> As a non-reciprocal provision this is an act of interference in internal arrangements which it is difficult to justify, but the practical effect of this,<sup>2</sup> and of an analogous provision relating to passenger traffic,<sup>3</sup> will much depend on the interpretation of the phrase, "similar conditions of transport."<sup>4</sup>

For the time being Germany's transport system will be much more seriously disordered by the provisions relating to the cession of rolling-stock. Under paragraph 7 of the Armistice conditions Germany was

<sup>1</sup> Art. 365. After five years this Article is subject to revision by the Council of the League of Nations.

<sup>2</sup> The German Government withdrew, as from September 1, 1919, all preferential railway tariffs for the export of iron and steel goods, on the ground that these privileges would have been more than counterbalanced by the corresponding privileges which, under this Article of the Treaty, they would have been forced to give to Allied traders.

<sup>3</sup> Art. 367.

<sup>4</sup> Questions of interpretation and application are to be referred to the League of Nations (Art. 376).

called on to surrender 5000 locomotives and 150,000 waggons, "in good working order, with all necessary spare parts and fittings." Under the Treaty Germany is required to confirm this surrender and to recognise the title of the Allies to the material.<sup>1</sup> She is further required, in the case of railway systems in ceded territory, to hand over these systems complete with their full complement of rolling-stock "in a normal state of upkeep" as shown in the last inventory before November 11, 1918.<sup>2</sup> That is to say, ceded railway systems are not to bear any share in the general depletion and deterioration of the German rolling-stock as a whole.

This is a loss which in course of time can doubtless be made good. But lack of lubricating oils and the prodigious wear and tear of the war, not compensated by normal repairs, had already reduced the German railway system to a low state of efficiency. The further heavy losses under the Treaty will confirm this state of affairs for some time to come, and are a substantial aggravation of the difficulties of the coal problem and of export industry generally.

(iii.) There remain the clauses relating to the river system of Germany. These are largely unnecessary and are so little related to the supposed aims of the Allies that their purport is generally unknown. Yet

<sup>1</sup> Art. 250.

<sup>2</sup> Art. 371. This provision is even applied "to the lines of former Russian Poland converted by Germany to the German gauge, such lines being regarded as detached from the Prussian State System."

they constitute an unprecedented interference with a country's domestic arrangements, and are capable of being so operated as to take from Germany all effective control over her own transport system. In their present form they are incapable of justification; but some simple changes might transform them into a reasonable instrument.

Most of the principal rivers of Germany have their source or their outlet in non-German territory. The Rhine, rising in Switzerland, is now a frontier river for a part of its course, and finds the sea in Holland; the Danube rises in Germany but flows over its greater length elsewhere; the Elbe rises in the mountains of Bohemia, now called Czecho-Slovakia; the Oder traverses Lower Silesia; and the Niemen now bounds the frontier of East Prussia and has its source in Russia. Of these, the Rhine and the Niemen are frontier rivers, the Elbe is primarily German but in its upper reaches has much importance for Bohemia, the Danube in its German parts appears to have little concern for any country but Germany, and the Oder is an almost purely German river unless the result of the plebiscite is to detach all Upper Silesia.

Rivers which, in the words of the Treaty, "naturally provide more than one State with access to the sea," properly require some measure of international regulation and adequate guarantees against discrimination. This principle has long been recognised in the International Commissions which

regulate the Rhine and the Danube. But on such Commissions the States concerned should be represented more or less in proportion to their interests. The Treaty, however, has made the international character of these rivers a pretext for taking the river system of Germany out of German control.

After certain Articles which provide suitably against discrimination and interference with freedom of transit,<sup>1</sup> the Treaty proceeds to hand over the administration of the Elbe, the Oder, the Danube, and the Rhine to International Commissions.<sup>2</sup> The ultimate powers of these Commissions are to be determined by "a General Convention drawn up by the Allied and Associated Powers, and approved by the League of Nations."<sup>3</sup> In the meantime the Commissions are to draw up their own constitutions and are apparently to enjoy powers of the most extensive description, "particularly in regard to the execution of works of maintenance, control, and improvement on the river system, the financial régime, the fixing and collection of charges, and regulations for navigation."<sup>4</sup>

<sup>1</sup> Arts. 332-337. Exception may be taken, however, to the second paragraph of Art. 332, which allows the vessels of other nations to trade between German towns but forbids German vessels to trade between non-German towns except with special permission; and Art. 333, which prohibits Germany from making use of her river system as a source of revenue, may be injudicious.

<sup>2</sup> The Niemen and the Moselle are to be similarly treated at a later date if required.

<sup>3</sup> Art. 338.

<sup>4</sup> Art. 344. This is with particular reference to the Elbe and the Oder; the Danube and the Rhine are dealt with in relation to the existing Commissions.



So far there is much to be said for the Treaty. Freedom of through transit is a not unimportant part of good international practice and should be established everywhere. The objectionable feature of the Commissions lies in their membership. In each case the voting is so weighted as to place Germany in a clear minority. On the Elbe Commission Germany has four votes out of ten ; on the Oder Commission three out of nine ; on the Rhine Commission four out of nineteen ; on the Danube Commission, which is not yet definitely constituted, she will be apparently in a small minority. On the government of all these rivers France and Great Britain are represented ; and on the Elbe for some undiscoverable reason there are also representatives of Italy and Belgium.

Thus the great waterways of Germany are handed over to foreign bodies with the widest powers ; and much of the local and domestic business of Hamburg, Magdeburg, Dresden, Stettin, Frankfurt, Breslau, and Ulm will be subject to a foreign jurisdiction. It is almost as though the Powers of Continental Europe were to be placed in a majority on the Thames Conservancy or the Port of London.

Certain minor provisions follow lines which in our survey of the Treaty are now familiar. Under Annex III. of the Reparation Chapter Germany is to cede up to 20 per cent of her inland navigation tonnage. Over and above this she must cede such proportion of her river craft upon the Elbe, the

Oder, the Niemen, and the Danube as an American arbitrator may determine, "due regard being had to the legitimate needs of the parties concerned, and particularly to the shipping traffic during the five years preceding the war," the craft so ceded to be selected from those most recently built.<sup>1</sup> The same course is to be followed with German vessels and tugs on the Rhine and with German property in the port of Rotterdam.<sup>2</sup> Where the Rhine flows between France and Germany, France is to have all the rights of utilising the water for irrigation or for power and Germany is to have none;<sup>3</sup> and all the bridges are to be French property as to their whole length.<sup>4</sup> Finally, the administration of the purely German Rhine port of Kehl lying on the eastern bank of the river is to be united to that of Strassburg for seven years and managed by a Frenchman nominated by the new Rhine Commission.

Thus the Economic Clauses of the Treaty are comprehensive, and little has been overlooked which might impoverish Germany now or obstruct her development in future. So situated, Germany is to make payments of money, on a scale and in a manner to be examined in the next chapter.

<sup>1</sup> Art. 339.

<sup>2</sup> Art. 357.

<sup>3</sup> Art. 358. Germany is, however, to be allowed some payment or credit in respect of power so taken by France.

<sup>4</sup> Art. 66.

## CHAPTER V

### REPARATION

#### I. *Undertakings given prior to the Peace Negotiations*

THE categories of damage in respect of which the Allies were entitled to ask for Reparation are governed by the relevant passages in President Wilson's Fourteen Points of January 8, 1918, as modified by the Allied Governments in their qualifying Note, the text of which the President formally communicated to the German Government as the basis of peace on November 5, 1918. These passages have been quoted in full at the beginning of Chapter IV. That is to say, "compensation will be made by Germany for all damage done to the civilian population of the Allies and to their property by the aggression of Germany by land, by sea, and from the air." The limiting quality of this sentence is reinforced by the passage in the President's speech before Congress on February 11, 1918 (the terms of this speech being an express part

of the contract with the enemy), that there shall be "no contributions" and "no punitive damages."

It has sometimes been argued that the preamble to paragraph 19<sup>1</sup> of the Armistice Terms, to the effect "that any future claims and demands of the Allies and the United States of America remain unaffected," wiped out all precedent conditions, and left the Allies free to make whatever demands they chose. But it is not possible to maintain that this casual protective phrase, to which no one at the time attached any particular importance, did away with all the formal communications which passed between the President and the German Government as to the basis of the Terms of Peace during the days preceding the Armistice, abolished the Fourteen Points, and converted the German acceptance of the Armistice Terms into unconditional surrender, so far as affects the Financial Clauses. It is merely the usual phrase of the draftsman, who, about to rehearse a list of certain claims, wishes to guard himself from the implication that such list is exhaustive. In any case this contention is disposed of by the Allied

<sup>1</sup> "With reservation that any future claims and demands of the Allies and the United States of America remain unaffected, the following financial conditions are required: Reparation for damage done. Whilst Armistice lasts, no public securities shall be removed by the enemy which can serve as a pledge to the Allies for recovery or reparation of war losses. Immediate restitution of cash deposit in National Bank of Belgium, and, in general, immediate return of all documents, of specie, stock, shares, paper money, together with plant for issue thereof, touching public or private interests in invaded countries. Restitution of Russian and Roumanian gold yielded to Germany or taken by that Power. This gold to be delivered in trust to the Allies until signature of peace."

reply to the German observations on the first draft of the Treaty, where it is admitted that the terms of the Reparation Chapter must be governed by the President's Note of November 5.

Assuming then that the terms of this Note are binding, we are left to elucidate the precise force of the phrase—"all damage done to the civilian population of the Allies and to their property by the aggression of Germany by land, by sea, and from the air." Few sentences in history have given so much work to the sophists and the lawyers, as we shall see in the next section of this chapter, as this apparently simple and unambiguous statement. Some have not scrupled to argue that it covers the entire cost of the war; for, they point out, the entire cost of the war has to be met by taxation, and such taxation is "damaging to the civilian population." They admit that the phrase is cumbrous, and that it would have been simpler to have said "all loss and expenditure of whatever description"; and they allow that the apparent emphasis on damage to the persons and property of *civilians* is unfortunate; but errors of draftsmanship should not, in their opinion, shut off the Allies from the rights inherent in victors.

But there are not only the limitations of the phrase in its natural meaning and the emphasis on civilian damages as distinct from military expenditure generally; it must also be remembered that the

context of the term is in elucidation of the meaning of the term "restoration" in the President's Fourteen Points. The Fourteen Points provide for damage in invaded territory—Belgium, France, Roumania, Serbia, and Montenegro (Italy being unaccountably omitted)—but they do not cover losses at sea by submarine, bombardments from the sea (as at Scarborough), or damage done by air raids. It was to repair these omissions, which involved losses to the life and property of civilians not really distinguishable in kind from those effected in occupied territory, that the Supreme Council of the Allies in Paris proposed to President Wilson their qualifications. At that time—the last days of October 1918—I do not believe that any responsible statesman had in mind the exaction from Germany of an indemnity for the general costs of the war. They sought only to make it clear (a point of considerable importance to Great Britain) that reparation for damage done to non-combatants and their property was not limited to invaded territory (as it would have been by the Fourteen Points unqualified), but applied equally to *all* such damage, whether "by land, by sea, or from the air." It was only at a later stage that a general popular demand for an indemnity, covering the full costs of the war, made it politically desirable to practise dishonesty and to try to discover in the written word what was not there.

What damages, then, can be claimed from the

enemy on a strict interpretation of our engagements?<sup>1</sup> In the case of the United Kingdom the bill would cover the following items—

(a) Damage to civilian life and property by the acts of an enemy Government including damage by air raids, naval bombardments, submarine warfare, and mines.

(b) Compensation for improper treatment of interned civilians.

It would not include the general costs of the war or (*e.g.*) indirect damage due to loss of trade.

The French claim would include, as well as items corresponding to the above,—

(c) Damage done to the property and persons of civilians in the war area, and by aerial warfare behind the enemy lines.

(d) Compensation for loot of food, raw materials, live-stock, machinery, household effects, timber, and the like by the enemy Governments or their nationals in territory occupied by them.

(e) Repayment of fines and requisitions levied by the enemy Governments or their officers on French municipalities or nationals.

(f) Compensation to French nationals deported or compelled to do forced labour.

<sup>1</sup> It is to be noticed, in passing, that they contain nothing which limits the damage to damage inflicted contrary to the recognised rules of warfare. That is to say, it is permissible to include claims arising out of the legitimate capture of a merchantman at sea, as well as the costs of illegal submarine warfare.

In addition to the above there is a further item of more doubtful character, namely—

(g) The expenses of the Relief Commission in providing necessary food and clothing to maintain the civilian French population in the enemy-occupied districts.

The Belgian claim would include similar items.<sup>1</sup> If it were argued that in the case of Belgium something more nearly resembling an indemnity for general war costs can be justified, this could only be on the ground of the breach of International Law involved in the invasion of Belgium, whereas, as we have seen, the Fourteen Points include no special demands on this ground.<sup>2</sup> As the cost of Belgian Relief under (g), as well as her general war costs, has been met already by advances from the British, French, and United States Governments, Belgium would presumably employ any repayment of them by Germany in part discharge of her debt to these Governments, so that any such demands are, in effect, an addition to the claims of the three lending Governments.

The claims of the other Allies would be compiled on similar lines. But in their case the question arises

Mark-paper or mark-credits owned in ex-occupied territory by Allied nationals should be included, if at all, in the settlement of enemy debts, along with other sums owed to Allied nationals, and not in connection with reparation.

<sup>2</sup> A special claim on behalf of Belgium was actually included in the Peace Treaty, and was accepted by the German representatives without demur.



more acutely how far Germany can be made contingently liable for damage done, not by herself, but by her co-belligerents, Austria-Hungary, Bulgaria, and Turkey. This is one of the many questions to which the Fourteen Points give no clear answer; on the one hand, they cover explicitly in Point 11 damage done to Roumania, Serbia, and Montenegro, without qualification as to the nationality of the troops inflicting the damage; on the other hand, the Note of the Allies speaks of "German" aggression when it might have spoken of the aggression of "Germany and her allies." On a strict and literal interpretation, I doubt if claims lie against Germany for damage done,—*e.g.* by the Turks to the Suez Canal, or by Austrian submarines in the Adriatic. But it is a case where, if the Allies wished to strain a point, they could impose contingent liability on Germany without running seriously contrary to the general intention of their engagements.

As between the Allies themselves the case is quite different. It would be an act of gross unfairness and infidelity if France and Great Britain were to take what Germany could pay and leave Italy and Serbia to get what they could out of the remains of Austria-Hungary. As amongst the Allies themselves it is clear that assets should be pooled and shared out in proportion to aggregate claims.

In this event, and if my estimate is accepted, as given below, that Germany's capacity to pay

will be exhausted by the direct and legitimate claims which the Allies hold against her, the question of her contingent liability for her allies becomes academic. Prudent and honourable statesmanship would therefore have given her the benefit of the doubt, and claimed against her nothing but the damage she had herself caused.

What, on the above basis of claims, would the aggregate demand amount to? No figures exist on which to base any scientific or exact estimate, and I give my own guess for what it is worth, prefacing it with the following observations.

The amount of the material damage done in the invaded districts has been the subject of enormous, if natural, exaggeration. A journey through the devastated areas of France is impressive to the eye and the imagination beyond description. During the winter of 1918-19, before Nature had cast over the scene her ameliorating mantle, the horror and desolation of war was made visible to sight on an extraordinary scale of blasted grandeur. The completeness of the destruction was evident. For mile after mile nothing was left. No building was habitable and no field fit for the plough. The sameness was also striking. One devastated area was exactly like another—a heap of rubble, a morass of shell-holes, and a tangle of wire.<sup>1</sup> The amount of human

<sup>1</sup> To the British observer, one scene, however, stood out distinguished from the rest—the field of Ypres. In that desolate and ghostly spot, the natural colour and humours of the landscape and the climate

labour which would be required to restore such a countryside seemed incalculable; and to the returned traveller any number of milliards of pounds was inadequate to express in matter the destruction thus impressed upon his spirit. Some Governments for a variety of intelligible reasons have not been ashamed to exploit these feelings a little.

Popular sentiment is most at fault, I think, in the case of Belgium. In any event Belgium is a small country, and in its case the actual area of devastation is a small proportion of the whole. The first onrush of the Germans in 1914 did some damage locally; after that the battle-line in Belgium did not sway backwards and forwards, as in France, over a deep belt of country. It was practically stationary, and hostilities were confined to a small corner of the country, much of which in recent times was backward, poor, and sleepy, and did not include the active industry of the country. There remains some injury in the small flooded area, the deliberate damage done by the retreating Germans to buildings, plant, and transport, and the loot of machinery, cattle, and other movable property. But Brussels, Antwerp, and even Ostend are substantially intact,

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seemed designed to express to the traveller the memories of the ground. A visitor to the salient early in November 1918, when a few German bodies still added a touch of realism and human horror, and the great struggle was not yet certainly ended, could feel there, as nowhere else, the present outrage of war, and at the same time the tragic and sentimental purification which to the future will in some degree transform its harshness.

and the great bulk of the land, which is Belgium's chief wealth, is nearly as well cultivated as before. The traveller by motor can pass through and from end to end of the devastated area of Belgium almost before he knows it; whereas the destruction in France is on a different kind of scale altogether. Industrially, the loot has been serious and for the moment paralysing; but the actual money cost of replacing machinery mounts up slowly, and a very few tens of millions would have covered the value of every machine of every possible description that Belgium ever possessed. Besides, the cold statistician must not overlook the fact that the Belgian people possess the instinct of individual self-protection unusually well developed; and the great mass of German bank-notes<sup>1</sup> held in the country at the

<sup>1</sup> These notes, estimated to amount to no less than six thousand million marks, are now a source of embarrassment and great potential loss to the Belgian Government, inasmuch as on their recovery of the country they took them over from their nationals in exchange for Belgian notes at the rate of Fr. 1.20=Mk. 1. This rate of exchange, being substantially in excess of the value of the mark-notes at the rate of exchange current at the time (and enormously in excess of the rate to which the mark-notes have since fallen, the Belgian franc being now worth more than three marks), was the occasion of the smuggling of mark-notes into Belgium on an enormous scale, to take advantage of the profit obtainable. The Belgian Government took this very imprudent step, partly because they hoped to persuade the Peace Conference to make the redemption of these bank-notes, at the par of exchange, a first charge on German assets. The Peace Conference held, however, that Reparation proper must take precedence of the adjustment of improvident banking transactions effected at an excessive rate of exchange. The possession by the Belgian Government of this great mass of German currency, in addition to an amount of nearly two thousand million marks held by the French Government which they similarly exchanged for the benefit of the population of the invaded areas and of Alsace-Lorraine, is a serious aggravation

date of the Armistice, shows that certain classes of them at least found a way, in spite of all the severities and barbarities of German rule, to profit at the expense of the invader. Belgian claims against Germany such as I have seen, amounting to a sum in excess of the total estimated pre-war wealth of the whole country, are simply irresponsible.<sup>1</sup>

It will help to guide our ideas to quote the official survey of Belgian wealth published in 1913 by the Finance Ministry of Belgium, which was as follows :—

	Million £.
Land . . . . .	264
Buildings . . . . .	235
Personal Wealth . . . . .	545
Cash . . . . .	17
Furniture, etc. . . . .	120
	<hr/>
	1181

This total yields an average of £156 per inhabitant, which Dr. Stamp, the highest authority on the subject, is disposed to consider as *prima facie*

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of the exchange position of the mark. It will certainly be desirable for the Belgian and German Governments to come to some arrangement as to its disposal, though this is rendered difficult by the prior lien held by the Reparation Commission over all German assets available for such purposes.

<sup>1</sup> It should be added, in fairness, that the very high claims put forward on behalf of Belgium generally include not only devastation proper, but all kinds of other items, as, for example, the profits and earnings which Belgians might reasonably have expected to earn if there had been no war.

too low (though he does not accept certain much higher estimates lately current), the corresponding wealth per head (to take Belgium's immediate neighbours) being £167 for Holland, £244 for Germany, and £303 for France.<sup>1</sup> A total of £1500 million, giving an average of about £200 per head, would, however, be fairly liberal. The official estimate of land and buildings is likely to be more accurate than the rest. On the other hand, allowance has to be made for the increased costs of construction.

Having regard to all these considerations, I do not put the money value of the actual *physical* loss of Belgian property by destruction and loot above £150,000,000 *as a maximum*, and while I hesitate to put yet lower an estimate which differs so widely from those generally current, I shall be surprised if it proves possible to substantiate claims even to this amount. Claims in respect of levies, fines, requisitions, and so forth might possibly amount to a further £100,000,000. If the sums advanced to Belgium by her allies for the general costs of the war are to be included, a sum of about £250,000,000 has to be added (which includes the cost of relief), bringing the total to £500,000,000.

The destruction in France was on an altogether more significant scale, not only as regards the length of the battle line, but also on account of the im-

<sup>1</sup> "The Wealth and Income of the Chief Powers," by J. C. Stamp (*Journal of the Royal Statistical Society*, July 1919).

mensely deeper area of country over which the battle swayed from time to time. It is a popular delusion to think of Belgium as the principal victim of the war; it will turn out, I believe, that taking account of casualties, loss of property, and burden of future debt, Belgium has made the least relative sacrifice of all the belligerents except the United States. Of the Allies, Serbia's sufferings and loss have been proportionately the greatest, and after Serbia, France. France in all essentials was just as much the victim of German ambition as was Belgium, and France's entry into the war was just as unavoidable. France, in my judgment, in spite of her policy at the Peace Conference, a policy largely traceable to her sufferings, has the greatest claims on our generosity.

The special position occupied by Belgium in the popular mind is due, of course, to the fact that in 1914 her sacrifice was by far the greatest of any of the Allies. But after 1914 she played a minor rôle. Consequently, by the end of 1918, her relative sacrifices, apart from those sufferings from invasion which cannot be measured in money, had fallen behind, and in some respects they were not even as great as, for example, Australia's. I say this with no wish to evade the obligations towards Belgium under which the pronouncements of our responsible statesmen at many different dates have certainly laid us. Great Britain ought not to seek any payment at all from

Germany for herself until the just claims of Belgium have been fully satisfied. But this is no reason why we or they should not tell the truth about the amount.

While the French claims are immensely greater, here too there has been excessive exaggeration, as responsible French statisticians have themselves pointed out. Not above 10 per cent of the area of France was effectively occupied by the enemy, and not above 4 per cent lay within the area of substantial devastation. Of the sixty French towns having a population exceeding 35,000, only two were destroyed—Reims (115,178) and St. Quentin (55,571); three others were occupied—Lille, Roubaix, and Douai—and suffered from loot of machinery and other property, but were not substantially injured otherwise. Amiens, Calais, Dunkerque, and Boulogne suffered secondary damage by bombardment and from the air; but the value of Calais and Boulogne must have been increased by the new works of various kinds erected for the use of the British Army.

The *Annuaire Statistique de la France*, 1917, values the entire house property of France at £2,380,000,000 (59·5 milliard francs).<sup>1</sup> An estimate current in France of £800,000,000 (20 milliard francs) for the destruction of house property alone is, therefore, obviously wide of the mark.<sup>2</sup>

<sup>1</sup> Other estimates vary from £2420 million to £2680 million. See Stamp, *loc. cit.*

<sup>2</sup> This was clearly and courageously pointed out by M. Charles Gide in *L'Emancipation* for February 1919.



£120,000,000 at pre-war prices, or say £250,000,000 at the present time, is much nearer the right figure. Estimates of the value of the land of France (apart from buildings) vary from £2480 million to £3116 million, so that it would be extravagant to put the damage on this head as high as £100 million. Farm Capital for the whole of France has not been put by responsible authorities above £420 million.<sup>1</sup> There remain the loss of furniture and machinery, the damage to the coal-mines and the transport system, and many other minor items. But these losses, however serious, cannot be reckoned in value by hundreds of millions sterling in respect of so small a part of France. In short, it will be difficult to establish a bill exceeding £500,000,000, for *physical and material* damage in the occupied and devastated areas of Northern France.<sup>2</sup> I am confirmed in this

<sup>1</sup> For details of these and other figures, see Stamp, *loc. cit.*

<sup>2</sup> Even when the extent of the material damage has been established, it will be exceedingly difficult to put a price on it, which must largely depend on the period over which restoration is spread, and the methods adopted. It would be impossible to make the damage good in a year or two at any price, and an attempt to do so at a rate which was excessive in relation to the amount of labour and materials at hand might force prices up to almost any level. We must, I think, assume a cost of labour and materials about equal to that current in the world generally. In point of fact, however, we may safely assume that literal restoration will never be attempted. Indeed, it would be very wasteful to do so. Many of the townships were old and unhealthy, and many of the hamlets miserable. To re-erect the same type of building in the same places would be foolish. As for the land, the wise course may be in some cases to leave long strips of it to Nature for many years to come. An aggregate money sum should be computed as fairly representing the value of the material damage, and France should be left to expend it in the manner she thinks wisest with a view to her economic enrichment as a whole. The first breeze of this controversy has already blown through France. A long and inconclusive

estimate by the opinion of M. René Pupin, the author of the most comprehensive and scientific estimate of the pre-war wealth of France,<sup>1</sup> which I did not come across until after my own figure had been arrived at. This authority estimates the material losses of the invaded regions at from £400 million to £600 million (10 to 15 milliards),<sup>2</sup> between which my own figure falls half-way.

Nevertheless, M. Dubois, speaking on behalf of the Budget Commission of the Chamber, has given the figure of £2600 million (65 milliard francs) "as a minimum" without counting "war levies, losses at

debate occupied the Chamber during the spring of 1919, as to whether inhabitants of the devastated area receiving compensation should be compelled to expend it in restoring the identical property, or whether they should be free to use it as they like. There was evidently a great deal to be said on both sides; in the former case there would be much hardship and uncertainty for owners who could not, many of them, hope to recover the effective use of their property perhaps for years to come, and yet would not be free to set themselves up elsewhere; on the other hand, if such persons were allowed to take their compensation and go elsewhere, the countryside of Northern France would never be put right. Nevertheless I believe that the wise course will be to allow great latitude and let economic motives take their own course.

<sup>1</sup> *La Richesse de la France devant la Guerre*, published in 1916.

<sup>2</sup> *Revue Bleue*, February 3, 1919. This is quoted in a very valuable selection of French estimates and expressions of opinion, forming chapter iv. of *La Liquidation financière de la Guerre*, by H. Charriaut and R. Hacault. The general magnitude of my estimate is further confirmed by the extent of the repairs already effected, as set forth in a speech delivered by M. Tardieu on October 10, 1919, in which he said: "On September 16 last, of 2246 kilomètres of railway track destroyed, 2016 had been repaired; of 1075 kilomètres of canal, 700; of 1160 constructions, such as bridges and tunnels, which had been blown up, 588 had been replaced; of 550,000 houses ruined by bombardment, 60,000 had been rebuilt; and of 1,800,000 hectares of ground rendered useless by battle, 400,000 had been recultivated, 200,000 hectares of which are now ready to be sown. Finally, more than 10,000,000 mètres of barbed wire had been removed."

sea, the roads, or the loss of public monuments." And M. Loucheur, the Minister of Industrial Reconstruction, stated before the Senate on the 17th February 1919 that the reconstitution of the devastated regions would involve an expenditure of £3000 million (75 milliard francs),—more than double M. Pupin's estimate of the entire wealth of their inhabitants. But then at that time M. Loucheur was taking a prominent part in advocating the claims of France before the Peace Conference, and, like others, may have found strict veracity inconsistent with the demands of patriotism.<sup>1</sup>

The figure discussed so far is not, however, the totality of the French claims. There remain, in particular, levies and requisitions on the occupied areas and the losses of the French mercantile marine at sea from the attacks of German cruisers and submarines. Probably £200 million would be ample to cover all such claims; but to be on the safe side, we will, somewhat arbitrarily, make an addition to the French claim of £300 million on all heads, bringing it to £800 million in all.

The statements of M. Dubois and M. Loucheur were made in the early spring of 1919. A speech delivered by M. Klotz before the French Chamber six months later (Sept. 5, 1919), was less excusable. In this speech the French Minister of Finance estimated

<sup>1</sup> Some of these estimates include allowance for contingent and immaterial damage as well as for direct material injury.

the total French claims for damage to property (presumably inclusive of losses at sea, etc., but apart from pensions and allowances) at £5360 million (134 milliard francs), or more than six times my estimate. Even if my figure prove erroneous, M. Klotz's can never have been justified. So grave has been the deception practised on the French people by their Ministers that when the inevitable enlightenment comes, as it soon must (both as to their own claims and as to Germany's capacity to meet them), the repercussions will strike at more than M. Klotz, and may even involve the order of Government and Society for which he stands.

British claims on the present basis would be practically limited to losses by sea—losses of hulls and losses of cargoes. Claims would lie, of course, for damage to civilian property in air raids and by bombardment from the sea, but in relation to such figures as we are now dealing with, the money value involved is insignificant,—£5,000,000 might cover them all, and £10,000,000 would certainly do so.

The British mercantile vessels lost by enemy action, excluding fishing vessels, numbered 2479, with an aggregate of 7,759,090 tons gross.<sup>1</sup> There is room for considerable divergence of opinion as to the proper rate to take for replacement cost; at the figure of £30 per gross ton, which with the rapid growth of

<sup>1</sup> A substantial part of this was lost in the service of the Allies; this must not be duplicated by inclusion both in their claims and in ours.

shipbuilding may soon be too high but can be replaced by any other which better authorities<sup>1</sup> may prefer, the aggregate claim is £230,000,000. To this must be added the loss of cargoes, the value of which is almost entirely a matter of guesswork. An estimate of £40 per ton of shipping lost may be as good an approximation as is possible, that is to say £310,000,000, making £540,000,000 altogether.

An addition to this of £30,000,000, to cover air raids, bombardments, claims of interned civilians, and miscellaneous items of every description, should be more than sufficient,—making a total claim for Great Britain of £570,000,000. It is surprising, perhaps, that the money value of our claim should be so little short of that of France and actually in excess of that of Belgium. But, measured either by pecuniary loss or real loss to the economic power of the country, the injury to our mercantile marine was enormous.

There remain the claims of Italy, Serbia, and Roumania for damage by invasion and of these and other countries, as for example Greece,<sup>2</sup> for losses at sea. I will assume for the present argument that

<sup>1</sup> The fact that no separate allowance is made in the above for the sinking of 675 fishing vessels of 71,765 tons gross, or for the 1885 vessels of 8,007,967 tons damaged or molested, but not sunk, may be set off against what may be an excessive figure for replacement cost.

<sup>2</sup> The losses of the Greek mercantile marine were excessively high, as a result of the dangers of the Mediterranean; but they were largely incurred on the service of the other Allies, who paid for them directly or indirectly. The claims of Greece for maritime losses incurred on the service of her own nationals would not be very considerable.

these claims rank against Germany, even when they were directly caused not by her but by her allies; but that it is not proposed to enter any such claims on behalf of Russia.<sup>1</sup> Italy's losses by invasion and at sea cannot be very heavy, and a figure of from £50,000,000 to £100,000,000 would be fully adequate to cover them. The losses of Serbia, although from a human point of view her sufferings were the greatest of all,<sup>2</sup> are not measured *pecuniarily* by very great figures, on account of her low economic development. Dr. Stamp (*loc. cit.*) quotes an estimate by the Italian statistician Maroi, which puts the national wealth of Serbia at £480 million or £105 per head,<sup>3</sup> and the greater part of this would be represented by land which has sustained no permanent

<sup>1</sup> There is a reservation in the Peace Treaty on this question. "The Allied and Associated Powers formally reserve the right of Russia to obtain from Germany restitution and reparation based on the principles of the present Treaty" (Art. 116).

<sup>2</sup> Dr. Diouritch in his "Economic and Statistical Survey of the Southern Slav Nations" (*Journal of Royal Statistical Society*, May 1919), quotes some extraordinary figures of the loss of life: "According to the official returns, the number of those fallen in battle or died in captivity up to the last Serbian offensive, amounted to 320,000, which means that one half of Serbia's male population, from 18 to 60 years of age, perished outright in the European War. In addition, the Serbian Medical Authorities estimate that about 300,000 people have died from typhus among the civil population, and the losses among the population interned in enemy camps are estimated at 50,000. During the two Serbian retreats and during the Albanian retreat the losses among children and young people are estimated at 200,000. Lastly, during over three years of enemy occupation, the losses in lives owing to the lack of proper food and medical attention are estimated at 250,000." Altogether, he puts the losses in life at above 1,000,000, or more than one-third of the population of Old Serbia.

<sup>3</sup> *Come si calcola e a quanto ammonta la ricchezza d'Italia e delle altre principali nazioni*, published in 1919.

damage.<sup>1</sup> In view of the very inadequate data for guessing at more than the *general magnitude* of the legitimate claims of this group of countries, I prefer to make one guess rather than several and to put the figure for the whole group at the round sum of £250,000,000.

We are finally left with the following—

	Million £.
Belgium . . . . .	500 <sup>2</sup>
France . . . . .	800
Great Britain . . . . .	570
Other Allies . . . . .	250
<hr/>	
Total . . . . .	£2120 million.

I need not impress on the reader that there is much guesswork in the above, and the figure for France in particular is likely to be criticised. But I feel some confidence that the *general magnitude*, as distinct from the precise figures, is not hopelessly erroneous; and this may be expressed by the statement that a claim against Germany, based on the interpretation of the pre-Armistice engagements of the Allied Powers which is adopted above, would assuredly be found to exceed £1600 million and to fall short of £3000 million.

This is the amount of the claim which we were

<sup>1</sup> Very large claims put forward by the Serbian authorities include many hypothetical items of indirect and non-material damage; but these, however real, are not admissible under our present formula.

<sup>2</sup> Assuming that in her case £250 million are included for the general expenses of the war defrayed out of loans made to Belgium by her allies.

entitled to present to the enemy. For reasons which will appear more fully later on, I believe that it would have been a wise and just act to have asked the German Government at the Peace Negotiations to agree to a sum of £2000 million in final settlement, without further examination of particulars. This would have provided an immediate and certain solution, and would have required from Germany a sum which, if she were granted certain indulgences, it might not have proved entirely impossible for her to pay. This sum should have been divided up amongst the Allies themselves on a basis of need and general equity.

But the question was not settled on its merits.

## II. *The Conference and the Terms of the Treaty*

I do not believe that, at the date of the Armistice, responsible authorities in the Allied countries expected any indemnity from Germany beyond the cost of reparation for the direct material damage which had resulted from the invasion of Allied territory and from the submarine campaign. At that time there were serious doubts as to whether Germany intended to accept our terms, which in other respects were inevitably very severe, and it would have been thought an unstatesmanlike act to risk a continuance of the war by demanding a money payment which Allied opinion was not then antici-



pating and which probably could not be secured in any case. The French, I think, never quite accepted this point of view; but it was certainly the British attitude; and in this atmosphere the pre-Armistice conditions were framed.

A month later the atmosphere had changed completely. We had discovered how hopeless the German position really was, a discovery which some, though not all, had anticipated, but which no one had dared reckon on as a certainty. It was evident that we could have secured unconditional surrender if we had determined to get it.

But there was another new factor in the situation which was of greater local importance. The British Prime Minister had perceived that the conclusion of hostilities might soon bring with it the break-up of the political *bloc* upon which he was depending for his personal ascendancy, and that the domestic difficulties which would be attendant on demobilisation, the turn-over of industry from war to peace conditions, the financial situation, and the general psychological reactions of men's minds, would provide his enemies with powerful weapons, if he were to leave them time to mature. The best chance, therefore, of consolidating his power, which was personal and exercised, as such, independently of party or principle, to an extent unusual in British politics, evidently lay in active hostilities before the prestige of victory had abated, and in an attempt to found

on the emotions of the moment a new basis of power which might outlast the inevitable reactions of the near future. Within a brief period, therefore, after the Armistice, the popular victor, at the height of his influence and his authority, decreed a General Election. It was widely recognised at the time as an act of political immorality. There were no grounds of public interest which did not call for a short delay until the issues of the new age had a little defined themselves, and until the country had something more specific before it on which to declare its mind and to instruct its new representatives. But the claims of private ambition determined otherwise.

For a time all went well. But before the campaign was far advanced Government candidates were finding themselves handicapped by the lack of an effective cry. The War Cabinet was demanding a further lease of authority on the ground of having won the war. But partly because the new issues had not yet defined themselves, partly out of regard for the delicate balance of a Coalition Party, the Prime Minister's future policy was the subject of silence or generalities. The campaign seemed, therefore, to fall a little flat. In the light of subsequent events it seems improbable that the Coalition Party was ever in real danger. But party managers are easily "rattled." The Prime Minister's more neurotic advisers told him that he was not safe from

dangerous surprises, and the Prime Minister lent an ear to them. The party managers demanded more "ginger." The Prime Minister looked about for some.

On the assumption that the return of the Prime Minister to power was the primary consideration, the rest followed naturally. At that juncture there was a clamour from certain quarters that the Government had given by no means sufficiently clear undertakings that they were not going "to let the Hun off." Mr. Hughes was evoking a good deal of attention by his demands for a very large indemnity,<sup>1</sup> and Lord Northcliffe was lending his powerful aid to the same cause. This pointed the Prime Minister to a stone for two birds. By himself adopting the policy of Mr. Hughes and Lord Northcliffe, he could at the same time silence those powerful critics and provide his party managers with an effective platform cry to drown the increasing voices of criticism from other quarters.

The progress of the General Election of 1918 affords a sad, dramatic history of the essential weakness of one who draws his chief inspiration not from his own true impulses, but from the grosser effluxions

<sup>1</sup> It must be said to Mr. Hughes' honour that he apprehended from the first the bearing of the pre-Armistice negotiations on our right to demand an indemnity covering the full costs of the war, protested against our ever having entered into such engagements, and maintained loudly that he had been no party to them and could not consider himself bound by them. His indignation may have been partly due to the fact that Australia, not having been ravaged, would have no claims at all under the more limited interpretation of our rights.